



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:

<http://audgen.michigan.gov>



Michigan *Office of the Auditor General* **REPORT SUMMARY**

Financial Audit

Michigan Finance Authority

(A Discretely Presented Component Unit of the State of Michigan)

October 1, 2010 through September 30, 2011

Report Number:
271-0340-12

Released:
January 2012

A financial audit determines if the financial statements are fairly presented; considers internal control over financial reporting; and determines compliance with requirements material to the financial statements. This financial audit of the Michigan Finance Authority was conducted as part of the constitutional responsibility of the Office of the Auditor General.

Financial Statements:

Auditor's Report Issued

We issued unqualified opinions on the Michigan Finance Authority's financial statements.

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Internal Control Over Financial Reporting

We did not report any findings related to internal control over financial reporting.

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Noncompliance and Other Matters

Material to the Financial Statements

We did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under *Government Auditing Standards*.

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Background:

The Michigan Finance Authority (the Authority) is a discretely presented component unit of the State of Michigan that consolidated certain public finance authorities in Michigan in accordance with Executive Order No. 2010-2, effective May 30, 2010. The Authority combined the operations of 10 different public finance authorities (Michigan Forest Finance Authority, Michigan Higher Education Assistance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Student Loan Authority, Michigan Municipal Bond Authority, Michigan Public Educational Facilities Authority, Michigan State Hospital Finance Authority, Michigan Tobacco Settlement Finance Authority, Michigan Underground Storage Tank Financial Assurance

Authority, and State Higher Education Facilities Commission). In addition, the authorization to finance the facilities of public and private schools formerly under the Michigan Strategic Fund and to issue bonds and notes on behalf of the State Land Bank Fast Track Authority was transferred to the Authority.

The Authority offers financing to public and private agencies providing essential services to the citizens of the State of Michigan, including municipalities; healthcare providers; higher education; and public, private, and charter schools. The Authority also offers financing for loans to college students.

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A copy of the full report can be
obtained by calling 517.334.8050
or by visiting our Web site at:
<http://audgen.michigan.gov>



Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

January 13, 2012

Mr. Andy Dillon, State Treasurer and Chair
Michigan Finance Authority Board
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Dillon:

This is our report on the financial audit of the Michigan Finance Authority, a discretely presented component unit of the State of Michigan, for the period October 1, 2010 through September 30, 2011.

This report contains our report summary, our independent auditor's report on the financial statements, the Authority management's discussion and analysis, the Authority's basic financial statements, the Authority's required supplementary information, and the Authority's supplemental financial statements and financial schedules. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters and a glossary of acronyms and terms.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.
Auditor General

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INDEPENDENT AUDITOR'S REPORT



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Statements

Mr. Andy Dillon, State Treasurer and Chair
Michigan Finance Authority Board
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Dillon:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Michigan Finance Authority, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2011, which collectively comprise the Authority's basic financial statements as identified in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, the financial statements present only the Michigan Finance Authority and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of September 30, 2011 and the changes in financial position and cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Michigan Finance Authority as of September 30, 2011 and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the basic financial statements, the Authority adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2011 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 13 through 20 and the budgetary comparison schedules and corresponding note on pages 78 through 80 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplemental financial statements and schedules, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the Authority's basic financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish", is enclosed within a rectangular box.

Thomas H. McTavish, C.P.A.
Auditor General
December 29, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

The following is management's discussion and analysis of the Michigan Finance Authority's (the Authority's) financial performance, providing an overview of the activities for the fiscal year ended September 30, 2011. Please read it with the Authority's financial statements, which follow this section.

HIGHLIGHTS

- The Authority is a discretely presented component unit of the State of Michigan that consolidated certain public finance authorities in Michigan in accordance with Executive Order No. 2010-2, effective May 30, 2010. The Authority combined the operations of 10 different public finance authorities (Michigan Forest Finance Authority, Michigan Higher Education Assistance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Student Loan Authority, Michigan Municipal Bond Authority, Michigan Public Educational Facilities Authority, Michigan State Hospital Finance Authority, Michigan Tobacco Settlement Finance Authority, Michigan Underground Storage Tank Financial Assurance Authority, and State Higher Education Facilities Commission). In addition, the authorization to finance the facilities of public and private schools formerly under the Michigan Strategic Fund and to issue bonds and notes on behalf of the State Land Bank Fast Track Authority was transferred to the Authority.
- As of September 30, 2011, the Authority's assets exceeded its liabilities by \$1.742 billion.
- During the fiscal year ended September 30, 2011, the Authority issued new and refunding debt of \$2.181 billion, of which \$434.7 million was conduit financing for eligible borrowers and therefore was not recorded as debt of the Authority.
- Revenues of \$656.4 million supported expenses of \$358.5 million during fiscal year 2010-11. As a result, the Authority's total net assets increased by \$297.5 million (20.6%).

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the Authority's basic financial statements, which are comprised of four components: 1) government-wide financial statements, 2) governmental and proprietary fund financial statements, 3) fiduciary fund financial statements, and 4) notes to the financial statements.

Government-Wide Financial Statements

The statement of net assets and the statement of activities report information on all non-fiduciary activities of the Authority using the accrual basis of accounting. Authority activities are distinguished between governmental and business-type activities. The current fiscal year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of net assets presents the Authority's assets and liabilities, with the difference reported as net assets. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues.

Both statements report two activities:

- *Governmental Activities* - The statements report information on all non-fiduciary and non-business-type activities of the Authority. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.
- *Business-Type Activities* - The Authority charges fees to customers to help it cover the cost of services it provides. Program revenues include charges to users who directly benefit from the services and grants and contributions that are restricted to meeting the requirements of a function.

Fund Financial Statements

The fund financial statements provide detailed information about the major individual funds and supplemental information about non-major funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Authority uses to keep track of specific sources of funding and spending for a particular purpose. The

Authority's funds are divided into three categories (governmental, proprietary, and fiduciary) and use different accounting approaches:

- *Governmental Funds* - The Authority's major governmental funds include the Tobacco Settlement General Fund and the Tobacco Settlement Debt Service Fund. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.
- *Proprietary Funds* - The Authority's major proprietary funds include the Municipal Bond Fund and the Student Loan Fund. These funds are reported using full accrual accounting, which provides short-term and long-term financial information about the activities of the Authority.
- *Fiduciary Fund* - The Authority's fiduciary fund is the Michigan Guaranty Agency Federal Fund that is used to account for funds received from various sources and held by the Authority on behalf of the U.S. Department of Education (USDOE). These funds are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the Authority to finance its operations.

Additional Required Supplementary Information

Following the basic financial statements is additional required supplementary information that further explains and supports the information in the governmental fund - Tobacco Settlement Fund financial statements. The required supplementary information includes budgetary comparison schedules reconciling the statutory and generally accepted accounting principles fund balances at fiscal year-end.

Other Supplemental Information

Other supplemental information includes combining financial statements and schedules for non-major proprietary funds and subfunds of major proprietary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements, but are not reported individually, as with major funds, on the proprietary fund financial statements.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The Authority's combined net assets increased \$297.5 million (20.6%) over the course of fiscal year 2010-11 operations. The net deficit of the governmental activities increased \$12.2 million (1.3%) and business-type activities net assets had an increase of \$309.7 million (13.0%) during fiscal year 2010-11.

Statement of Net Assets As of September 30 (In Millions)

	Governmental Activities		Business-Type Activities		Total Authority	
	2011	2010	2011	2010	2011	2010
Total assets	\$ 161.2	\$ 164.9	\$ 9,577.7	\$ 9,907.4	\$ 9,738.9	\$ 10,072.3
Total liabilities	\$ 1,107.9	\$ 1,099.5	\$ 6,888.5	\$ 7,527.9	\$ 7,996.5	\$ 8,627.4
Net assets:						
Unrestricted	\$ (946.8)	\$ (934.6)	\$ 129.5	\$ 100.5	\$ (817.3)	\$ (834.1)
Restricted	0.0	0.0	2,559.7	2,278.9	2,559.7	2,278.9
Total net assets	\$ (946.8)	\$ (934.6)	\$ 2,689.2	\$ 2,379.4	\$ 1,742.4	\$ 1,444.8

The Authority's total assets decreased by \$333.4 million during fiscal year 2010-11. The governmental activities remained consistent; however, the business-type activities decreased by \$329.6 million, primarily as a result of decreases in loans and receivables from purchases by the Authority of public school and municipal notes and bonds.

The Authority's total liabilities decreased by \$630.9 million during fiscal year 2010-11. The governmental activities liabilities increased by \$8.5 million primarily due to the accretion of capital appreciation bonds. The business-type activities liabilities decreased by \$639.4 million primarily as a result of fulfilling debt service requirements during the fiscal year.

The largest component of the Authority's net assets, at \$2.560 billion as of September 30, 2011, reflects its restricted net assets. These represent resources that are subject to external restrictions or enabling legislation on how they can be used. Unrestricted net assets are the next largest component, consisting of a negative \$817.3 million as of September 30, 2011. These represent the result of the Authority recording liabilities for the entire amount of outstanding bonds. The bonds are

payable from proceeds from the Authority's share of future Master Settlement Agreement (MSA) receipts; however, accounting principles preclude the Authority from recording anticipated receipt of those proceeds because the underlying economic event has not yet occurred.

The following condensed financial information was derived from the government-wide statement of activities and reflects how the Authority's net assets changed during the fiscal year:

Changes in Net Assets
For the Fiscal Years Ended September 30
(In Millions)

	Governmental Activities		Business-Type Activities		Total Authority	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues						
Charges for services	\$ 60.6	\$ 66.8	\$ 254.4	\$ 251.6	\$ 315.0	\$ 318.4
Operating grants	2.5	0.0	338.6	324.4	341.1	324.4
General revenues						
Unrestricted investment and interest						
Earnings	0.0	3.1	0.0	.4	0.0	3.5
Total revenues	<u>\$ 63.1</u>	<u>\$ 69.9</u>	<u>\$ 593.0</u>	<u>\$ 576.4</u>	<u>\$ 656.1</u>	<u>\$ 646.3</u>
Expenses						
Total expenses	<u>\$ 75.3</u>	<u>\$ 74.6</u>	<u>\$ 283.2</u>	<u>\$ 439.9</u>	<u>\$ 358.5</u>	<u>\$ 514.5</u>
Increase (decrease) in net assets	\$ (12.2)	\$ (4.7)	\$ 309.7	\$ 136.5	\$ 297.5	\$ 131.9
Net assets - Beginning of fiscal year	(934.6)	(929.9)	2,379.4	2,242.9	1,444.8	1,313.0
Net assets - End of fiscal year	<u>\$ (946.8)</u>	<u>\$ (934.6)</u>	<u>\$2,689.2</u>	<u>\$2,379.4</u>	<u>\$1,742.4</u>	<u>\$1,444.8</u>

The Authority's total revenue for fiscal year 2010-11 remained consistent with the prior year, with a 1.5% increase totaling \$9.8 million when compared to fiscal year 2009-10.

The Authority's total expenses decreased by \$155.6 million during fiscal year 2010-11. The business-type activities accounted for a majority of the decrease mainly due to the decrease in the disbursement of American Recovery and Reinvestment Act of 2009 (ARRA) grant funds to local municipalities for qualified projects when compared to fiscal year 2009-10 activity.

FINANCIAL ANALYSIS OF THE AUTHORITY'S MAJOR FUNDS

Tobacco Settlement Funds

Total assets decreased by \$3.5 million (2.2%) during fiscal year 2010-11 primarily as a result of a decrease in tobacco revenue due from the primary government. Total liabilities decreased by \$3.2 million (6.1%) as a result of the decrease in deferred revenue for the tobacco revenue receivable. No bonds were issued in fiscal year 2010-11.

Tobacco settlement revenue (TSR) decreased by \$0.7 million (1.0%) as a result of the decreased revenue from tobacco sales. All tobacco settlement collections are contingent upon actual tobacco product sales and are subject to various adjustments as outlined in the MSA. The Funds' expenditures and other financing uses increased by \$0.2 million (0.3%) as a result of an increase in debt service requirements.

Municipal Bond Fund

Total assets decreased by \$38.0 million (0.5%) during fiscal year 2010-11. This is attributed to a combination of activity and balance fluctuations. Investments decreased by \$121.6 million primarily as a result of loans issued from the Clean Water Program during the fiscal year. Also, there was a decrease in notes receivable of \$229.2 million that is a result of a reduction in revenue notes issued during fiscal year 2010-11. There was a \$190.7 million increase in the receivable from primary government from an increase in loans made under the School Loan Revolving Subfund. In addition, there was an increase in bonds receivable of \$96.1 million from the purchase of local governmental units' municipal bonds during the fiscal year.

Total liabilities decreased by \$307.8 million (6.1%) during fiscal year 2010-11, primarily as a result of debt service payments exceeding new debt issues by \$271.9 million and a decrease in interest payable of \$36.2 million.

Operating revenue of the Municipal Bond Fund increased by \$5.4 million (2.4%) during fiscal year 2010-11. This increase was due primarily to a gain recognized on a mark to market for investments held by the School Loan Revolving Subfund debt reserve. Operating expenses decreased by \$22.2 million (10.0%) in fiscal year 2010-11 primarily from a decrease in interest expense. Much of the decrease is attributable to the School Loan Revolving Subfund debt refinancing completed in December 2010, which realized more favorable interest rates.

Non-operating expenses decreased by \$116.6 million (78.5%) as a result of reduced operating grants to municipalities for principal forgiveness on debt financed with ARRA funds. This program was first utilized in May 2009 and is reaching the end of the grant cycle for funding.

Student Loan Fund

The Student Loan Fund's total assets decreased by \$300.2 million (12.0%) resulting from a decrease of \$57.5 million in the cash and cash equivalents and a decrease in loans receivable of \$234.0 million. The decrease of cash and cash equivalents was primarily attributable to redemption of \$307.3 million bonds and notes redemptions of which \$144.2 million were mandatory redemptions and \$163.1 million were optionally redeemed. Loans receivable decreased mainly because new loans have not been made since June 30, 2010, \$10.8 million of loans receivable was written off due to loan defaults and over \$263.6 million of the student loans have been paid.

The Student Loan Fund's total liabilities decreased by \$327.5 million (13.7%) primarily due to the \$307.3 million of redemptions as noted previously.

In fiscal year 2009-10, the federal revenue was classified as interest revenue for the USDOE government interest subsidy of \$14.5 million and as miscellaneous revenue for the net special allowance payment of \$31.4 million to the USDOE. In fiscal year 2010-11, the federal revenue was separately classified to be more informative to the bondholders and other interested parties. In fiscal year 2010-11, the federal revenue was composed of interest subsidy of \$10.5 million on the subsidized loans that the USDOE pays the Student Loan Fund and a net payment of \$28.1 million to the USDOE for special allowance that is principally an incentive payment made to lenders in order that money market conditions and interest rates will not impede the issuance of student loans. However, for loans first disbursed on or after October 1, 2007, the College Cost Reduction and Access Act reduced the special allowance factors and the Deficit Reduction Act of 2005 required that if the resulting special allowance calculation was negative, the negative special allowance must be paid to the USDOE (see Note 7).

The interest revenue decrease of \$13.4 million is due to the run-off of the student loan portfolio, the continued decline of interest rates, and the classification of the government interest subsidy of \$10.5 million under federal revenue.

The Student Loan Fund's operating expenses decreased by \$16.3 million (35.4%) during fiscal year 2010-11. Interest expense decreased due to declining interest rates and redemption of notes and bonds as well as due to deferred gain on refunding of \$16.3 million that applies to the Straight-A note. The deferred gain was amortized for three months in fiscal year 2009-10, for twelve months in fiscal year 2010-11, and continues to be amortized until maturity of the notes in January 2014.

CONTACTING THE MICHIGAN FINANCE AUTHORITY

Additional information about the Authority as well as annual statistical and audit reports can be found at www.michigan.gov/mfa.

The contact information for the Authority is:

Michigan Finance Authority
Richard H. Austin Building
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Lansing, MI 48922
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BASIC FINANCIAL STATEMENTS

MICHIGAN FINANCE AUTHORITY
Statement of Net Assets
As of September 30, 2011

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current assets:			
Cash and cash equivalents (Note 4)	\$	\$ 696,519,808	\$ 696,519,808
Receivable - Tobacco settlement revenue	49,883,709		49,883,709
Receivable from federal government		3,024,779	3,024,779
Receivable from primary government (Note 5)		2,317,115	2,317,115
Receivable from other funds		1,863,414	1,863,414
Interest receivable	789,216	88,154,414	88,943,630
Investments (Note 4)	32,146,869	970,694,161	1,002,841,031
Notes receivable (Note 6)		981,606,210	981,606,210
Loans receivable, net (Note 7)		379,047,806	379,047,806
Bonds receivable (Note 8)		100,466,182	100,466,182
Other current assets		1,716,730	1,716,730
Total current assets	<u>\$ 82,819,795</u>	<u>\$ 3,225,410,619</u>	<u>\$ 3,308,230,413</u>
Noncurrent assets:			
Investments (Note 4)	\$ 70,953,990	\$ 933,053,374	\$ 1,004,007,364
Loans receivable, net (Note 7)		3,798,380,601	3,798,380,601
Bonds receivable (Note 8)		688,754,444	688,754,444
Receivable from primary government (Note 5)		856,789,442	856,789,442
Interest receivable		33,307,409	33,307,409
Deferred charges/financing costs, net	7,393,669	42,017,594	49,411,264
Total noncurrent assets	<u>\$ 78,347,659</u>	<u>\$ 6,352,302,864</u>	<u>\$ 6,430,650,523</u>
Total assets	<u>\$ 161,167,454</u>	<u>\$ 9,577,713,483</u>	<u>\$ 9,738,880,937</u>
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	\$ 141,661	\$ 10,102,217	\$ 10,243,878
Bonds and notes payable, net (Note 9)	8,610,000	1,353,803,927	1,362,413,927
Interest payable	20,254,327	83,948,597	104,202,924
Arbitrage payable		5,477,236	5,477,236
Compensated absences	3,836	68,947	72,783
Total current liabilities	<u>\$ 29,009,824</u>	<u>\$ 1,453,400,924</u>	<u>\$ 1,482,410,748</u>
Noncurrent liabilities:			
Bonds and notes payable, net (Note 9)	\$ 1,078,920,995	\$ 5,408,864,944	\$ 6,487,785,939
Arbitrage payable		25,537,743	25,537,743
Compensated absences	17,022	737,921	754,943
Total noncurrent liabilities	<u>\$ 1,078,938,017</u>	<u>\$ 5,435,140,608</u>	<u>\$ 6,514,078,625</u>
Total liabilities	<u>\$ 1,107,947,841</u>	<u>\$ 6,888,541,533</u>	<u>\$ 7,996,489,374</u>
NET ASSETS			
Unrestricted (deficit) (Note 3)	\$ (946,780,387)	\$ 129,518,375	\$ (817,262,012)
Restricted (Note 1)		2,559,653,575	2,559,653,575
Total net assets	<u>\$ (946,780,387)</u>	<u>\$ 2,689,171,950</u>	<u>\$ 1,742,391,563</u>
Total liabilities and net assets	<u>\$ 161,167,454</u>	<u>\$ 9,577,713,483</u>	<u>\$ 9,738,880,937</u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN FINANCE AUTHORITY
Statement of Activities
For the Fiscal Year Ended September 30, 2011

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Tobacco Settlement Funds	\$ 75,326,475	\$ 60,627,688	\$ 2,505,565	\$ (12,193,222)
Total governmental activities	<u>\$ 75,326,475</u>	<u>\$ 60,627,688</u>	<u>\$ 2,505,565</u>	<u>\$ (12,193,222)</u>
Business-type activities:				
Municipal Bond Fund	\$ 232,512,497	\$ 172,141,320	\$ 338,214,188	\$ 277,843,012
Student Loan Fund	29,760,349	56,975,160	63,570	27,278,381
Non-major funds	20,949,314	25,246,681	324,011	4,621,378
Total business-type activities	<u>\$ 283,222,160</u>	<u>\$ 254,363,161</u>	<u>\$ 338,601,770</u>	<u>\$ 309,742,770</u>
Total Michigan Finance Authority	<u>\$ 358,548,636</u>	<u>\$ 314,990,849</u>	<u>\$ 341,107,335</u>	<u>\$ 297,549,548</u>

The accompanying notes are an integral part of the financial statements.

<u>General Revenues</u>		<u>Net Assets</u>	
<u>Transfers</u>	<u>Changes in</u> <u>Net Assets</u>	<u>Beginning of Fiscal</u> <u>Year - Restated (Note 2)</u>	<u>Net Assets</u> <u>End of Fiscal Year</u>
\$	\$ (12,193,222)	\$ (934,587,165)	\$ (946,780,387)
\$ 0	\$ (12,193,222)	\$ (934,587,165)	\$ (946,780,387)
\$ (284,466)	\$ 277,558,546	\$ 2,242,135,021	\$ 2,519,693,567
	27,278,381	101,560,156	128,838,535
284,466	4,905,844	35,734,005	40,639,848
\$ 0	\$ 309,742,771	\$ 2,379,429,182	\$ 2,689,171,950
\$ 0	\$ 297,549,548	\$ 1,444,842,017	\$ 1,742,391,563

MICHIGAN FINANCE AUTHORITY
Governmental Funds
Balance Sheet
As of September 30, 2011

	<u>Major Funds (Note 2)</u>		<u>Totals</u>
	<u>General Fund</u>	<u>Debt Service Fund</u>	
ASSETS			
Current assets:			
Receivable - Tobacco settlement revenue	\$ 263,521	\$ 49,620,189	\$ 49,883,709
Interest receivable		789,216	789,216
Investments (Note 4)	503,253	31,643,616	32,146,869
Total current assets	<u>\$ 766,773</u>	<u>\$ 82,053,021</u>	<u>\$ 82,819,795</u>
Noncurrent assets:			
Investments (Note 4)	\$	\$ 70,953,990	\$ 70,953,990
Total noncurrent assets	<u>\$ 0</u>	<u>\$ 70,953,990</u>	<u>\$ 70,953,990</u>
Total assets	<u>\$ 766,773</u>	<u>\$ 153,007,011</u>	<u>\$ 153,773,784</u>
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	\$ 141,661	\$	\$ 141,661
Deferred revenue (Note 1)	263,521	49,620,189	49,883,709
Total current liabilities	<u>\$ 405,182</u>	<u>\$ 49,620,189</u>	<u>\$ 50,025,371</u>
Total liabilities	<u>\$ 405,182</u>	<u>\$ 49,620,189</u>	<u>\$ 50,025,371</u>
FUND BALANCE			
Fund balance:			
Restricted for debt service	\$	\$ 103,386,822	\$ 103,386,822
Restricted for administrative expenditures	361,592		361,592
Total fund balance	<u>\$ 361,592</u>	<u>\$ 103,386,822</u>	<u>\$ 103,748,413</u>
Total liabilities and fund balance	<u>\$ 766,773</u>	<u>\$ 153,007,011</u>	<u>\$ 153,773,784</u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN FINANCE AUTHORITY
As of September 30, 2011

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

Total fund balances for governmental funds	\$ 103,748,413
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Deferred bond issuance costs are expended in governmental funds whereas they are capitalized and amortized for net assets.	7,393,669
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Accrued interest payable on bonds is not recorded by governmental funds.	(20,254,327)
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Bonds payable are not reported in governmental funds until they are due and payable.	(1,087,530,995)
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Tobacco revenue receivable in April 2012 is not recognized as earned revenue by governmental funds and recorded as deferred revenue. For purposes of net assets, this is recognized as revenue earned.	49,883,709
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Compensated absences payable is not recorded by governmental funds.	<u>(20,857)</u>
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Net assets (deficit)	<u>\$ (946,780,387)</u>
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The accompanying notes are an integral part of the financial statements.

MICHIGAN FINANCE AUTHORITY
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended September 30, 2011

	Major Funds		
	Tobacco Settlement Funds		
	General Fund	Debt Service Fund	Totals
REVENUES			
Tobacco settlement revenue	\$ 341,128	\$ 63,204,412	\$ 63,545,540
Investment income	17	2,963,025	2,963,042
Total revenues	<u>\$ 341,145</u>	<u>\$ 66,167,437</u>	<u>\$ 66,508,582</u>
EXPENDITURES			
Interest and principal on bonds and notes	\$	\$ 66,568,398	\$ 66,568,398
Other administrative expenditures	190,161		190,161
Total expenditures	<u>\$ 190,161</u>	<u>\$ 66,568,398</u>	<u>\$ 66,758,560</u>
 Excess of revenues over (under) expenditures	<u>\$ 150,984</u>	<u>\$ (400,961)</u>	<u>\$ (249,977)</u>
 Change in fund balance	\$ 150,984	\$ (400,961)	\$ (249,977)
 Fund balance - Beginning of fiscal year - Restated (Note 2)	<u>210,608</u>	<u>103,787,783</u>	<u>103,998,391</u>
 Fund balance - End of fiscal year	<u>\$ 361,592</u>	<u>\$ 103,386,822</u>	<u>\$ 103,748,413</u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN FINANCE AUTHORITY
For the Fiscal Year Ended September 30, 2011

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Net change in fund balance - Total governmental funds	\$ (249,977)
Tobacco revenue receivable is not recognized as earned revenue by governmental funds and recorded as deferred revenue. For purposes of net assets, this is recognized as revenue earned. Adjustment is for the change in the receivable during the year.	(3,375,329)
Bond issuance costs and discounts/premiums on bonds are recognized and expended in the year the governmental fund issues the bond; however, these costs are amortized over the life of the bonds on the Statement of Activities:	
Amortization of deferred bond issuance costs	(251,468)
Amortization of discount on bonds issued	(302,738)
Bond principal payments are recognized as expenditure by governmental funds. For purposes of net assets, this is not recognized as an expenditure.	5,410,000
Bond interest expense accrual - Governmental funds do not recognize bond interest expense accruals. For purposes on net assets, this is recognized as an expense. The adjustment is the change in accrual during the year.	(13,436,444)
Compensated absences expense is not recorded by governmental funds but is reported as an expense for purposes of net assets.	<u>12,735</u>
Net change in net assets	<u>\$ (12,193,222)</u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN FINANCE AUTHORITY
Proprietary Funds
Statement of Net Assets
As of September 30, 2011

	Business-Type Activities			
	Major Funds		Non-Major Funds	Totals
	Municipal Bond Fund	Student Loan Fund		
ASSETS				
Current assets:				
Cash and cash equivalents (Note 4)	\$ 124,829,369	\$ 544,978,012	\$ 26,712,427	\$ 696,519,808
Receivable from federal government	150,697	2,385,103	488,979	3,024,779
Receivable from primary government (Note 5)	1,910,000	154,053	253,062	2,317,115
Receivable from other funds			1,863,414	1,863,414
Interest receivable	49,563,482	38,124,277	466,654	88,154,414
Investments (Note 4)	946,731,372	5,877,024	18,085,765	970,694,161
Notes receivable (Note 6)	944,148,405		37,457,805	981,606,210
Loans receivable, net (Note 7)	191,381,818	187,665,988		379,047,806
Bonds receivable (Note 8)	100,466,182			100,466,182
Other current assets	99,200	889,721	727,809	1,716,730
Total current assets	<u>\$ 2,359,280,525</u>	<u>\$ 780,074,178</u>	<u>\$ 86,055,916</u>	<u>\$ 3,225,410,619</u>
Noncurrent assets:				
Investments (Note 4)	\$ 929,553,374	\$ 500,000	\$ 3,000,000	\$ 933,053,374
Loans receivable, net (Note 7)	2,388,889,243	1,409,491,358		3,798,380,601
Bonds receivable (Note 8)	688,754,444			688,754,444
Receivable from primary government (Note 5)	856,789,442			856,789,442
Interest receivable	33,307,409			33,307,409
Deferred charges/financing costs, net	31,579,124	10,083,847	354,623	42,017,594
Total noncurrent assets	<u>\$ 4,928,873,036</u>	<u>\$ 1,420,075,205</u>	<u>\$ 3,354,623</u>	<u>\$ 6,352,302,864</u>
Total assets	<u>\$ 7,288,153,561</u>	<u>\$ 2,200,149,383</u>	<u>\$ 89,410,539</u>	<u>\$ 9,577,713,483</u>
LIABILITIES				
Current liabilities:				
Accounts payable and other liabilities	\$ 891,441	\$ 8,926,803	\$ 283,973	\$ 10,102,217
Bonds and notes payable, net (Note 9)	1,185,223,187	120,755,740	47,825,000	1,353,803,927
Interest payable	82,843,862	1,050,232	54,503	83,948,597
Arbitrage payable	5,316,824	160,412		5,477,236
Compensated absences		11,612	57,335	68,947
Total current liabilities	<u>\$ 1,274,275,314</u>	<u>\$ 130,904,799</u>	<u>\$ 48,220,811</u>	<u>\$ 1,453,400,924</u>
Noncurrent liabilities:				
Bonds and notes payable, net (Note 9)	\$ 3,489,355,301	\$ 1,919,509,643	\$	\$ 5,408,864,944
Arbitrage payable	4,829,378	20,708,365		25,537,743
Compensated absences		188,041	549,880	737,921
Total noncurrent liabilities	<u>\$ 3,494,184,679</u>	<u>\$ 1,940,406,049</u>	<u>\$ 549,880</u>	<u>\$ 5,435,140,608</u>
Total liabilities	<u>\$ 4,768,459,993</u>	<u>\$ 2,071,310,848</u>	<u>\$ 48,770,691</u>	<u>\$ 6,888,541,533</u>
NET ASSETS				
Unrestricted	\$ 3,928,383	\$ 119,603,554	\$ 5,986,438	\$ 129,518,375
Restricted (Note 1)	2,515,765,184	9,234,981	34,653,410	2,559,653,575
Total net assets	<u>\$ 2,519,693,567</u>	<u>\$ 128,838,535</u>	<u>\$ 40,639,848</u>	<u>\$ 2,689,171,950</u>
Total liabilities and net assets	<u>\$ 7,288,153,561</u>	<u>\$ 2,200,149,383</u>	<u>\$ 89,410,539</u>	<u>\$ 9,577,713,483</u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN FINANCE AUTHORITY
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended September 30, 2011

	Business-Type Activities			
	Major Funds		Non-Major	Totals
	Municipal Bond Fund	Student Loan Fund	Funds	
OPERATING REVENUES				
Federal revenue, net of special allowance (Notes 1 and 12)	\$ 514,207	\$ (17,678,603)	\$ 17,449,994	\$ 285,598
Interest revenue	172,086,287	67,704,900	1,220,154	241,011,340
Investment income	60,694,923	63,570	28,955	60,787,448
Fees			3,682,070	3,682,070
Miscellaneous	55,033	6,948,863	2,971,992	9,975,889
Total operating revenues	<u>\$ 233,350,450</u>	<u>\$ 57,038,730</u>	<u>\$ 25,353,165</u>	<u>\$ 315,742,345</u>
OPERATING EXPENSES				
Arbitrage expense	\$ (1,484,607)	\$ (460,276)	\$	\$ (1,944,883)
Interest expense	181,836,901	1,221,555	671,675	183,730,130
Amortization of deferred charges/financing costs	13,854,331	1,144,448	529,765	15,528,544
Grants to public school academies			295,057	295,057
Write-off of prior year loans receivable		10,779,558		10,779,558
Other administrative expense	6,339,755	17,075,064	19,452,818	42,867,637
Total operating expenses	<u>\$ 200,546,380</u>	<u>\$ 29,760,349</u>	<u>\$ 20,949,314</u>	<u>\$ 251,256,043</u>
Operating income (loss)	<u>\$ 32,804,070</u>	<u>\$ 27,278,381</u>	<u>\$ 4,403,851</u>	<u>\$ 64,486,302</u>
NONOPERATING REVENUES (EXPENSES)				
Operating subsidies	\$ 277,005,059	\$	\$	\$ 277,005,059
American Recovery and Reinvestment Act principal forgiveness	(28,244,314)			(28,244,314)
Other	(3,721,803)		217,527	(3,504,276)
Total nonoperating revenues (expenses)	<u>\$ 245,038,942</u>	<u>\$ 0</u>	<u>\$ 217,527</u>	<u>\$ 245,256,469</u>
Income before transfers	<u>\$ 277,843,012</u>	<u>\$ 27,278,381</u>	<u>\$ 4,621,378</u>	<u>\$ 309,742,770</u>
TRANSFERS				
Transfers from other funds	\$ 9,000	\$	\$ 323,594	\$ 332,594
Transfers to other funds	(293,466)		(39,127)	(332,593)
Total transfers	<u>\$ (284,466)</u>	<u>\$ 0</u>	<u>\$ 284,466</u>	<u>\$ 0</u>
Change in net assets	\$ 277,558,546	\$ 27,278,381	\$ 4,905,844	\$ 309,742,771
Net assets - Beginning of fiscal year - Restated (Note 2)	<u>2,242,135,021</u>	<u>101,560,156</u>	<u>35,734,005</u>	<u>2,379,429,182</u>
Net assets - End of fiscal year	<u>\$ 2,519,693,567</u>	<u>\$ 128,838,535</u>	<u>\$ 40,639,848</u>	<u>\$ 2,689,171,950</u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN FINANCE AUTHORITY
Proprietary Funds
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2011

	Business-Type Activities			
	Major Funds		Non-Major Funds	Totals
	Municipal Bond Fund	Student Loan Fund		
CASH FLOWS FROM OPERATING ACTIVITIES				
Bonds, notes, and loans receivable made	\$ (1,545,889,657)	\$	\$ (61,922,487)	\$ (1,607,812,144)
Principal received on bonds, notes, and loans	1,496,595,961	263,588,375	66,435,724	1,826,620,060
Interest received on bonds, notes, and loans	137,120,414	53,142,304	1,354,524	191,617,242
Cash payments to employees and suppliers for goods and services	(6,659,525)	(19,486,310)	(20,612,374)	(46,758,209)
Cash payments to grantees			(295,057)	(295,057)
Other operating revenues	3,342,178	(28,974,154)	25,051,332	(580,644)
Net cash provided by (used in) operating activities	\$ 84,509,372	\$ 268,270,215	\$ 10,011,661	\$ 362,791,248
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from sale of bonds and notes, net	\$ 1,684,035,926	\$	\$ 63,295,000	\$ 1,747,330,926
Payment of bond issue costs	(3,613,162)		(524,735)	(4,137,897)
Principal paid on bonds and notes	(1,973,370,423)	(301,190,561)	(67,020,000)	(2,341,580,984)
Interest paid on bonds and notes	(207,880,776)	(18,756,763)	(760,335)	(227,397,874)
Operating subsidies	238,293,827			238,293,827
American Recovery and Reinvestment Act Principal Forgiveness expenditures	38,599,509			38,599,509
Grant expenditures	(31,854,394)			(31,854,394)
Other	(284,466)		533,162	248,696
Net cash provided by (used in) noncapital financing activities	\$ (256,073,959)	\$ (319,947,324)	\$ (4,476,908)	\$ (580,498,191)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (purchases of) proceeds from sale and maturities of investment securities	\$ 125,891,228	\$ (5,878,004)	\$ (8,165,960)	\$ 111,847,264
Interest and dividends on investments	51,350,419	54,524	287,371	51,692,314
Net cash provided by (used in) investing activities	\$ 177,241,646	\$ (5,823,480)	\$ (7,878,588)	\$ 163,539,578
Net increase (decrease) in cash	\$ 5,677,060	\$ (57,500,589)	\$ (2,343,835)	\$ (54,167,365)
Cash and cash equivalents - Beginning of fiscal year	119,152,309	602,478,601	29,056,261	750,687,171
Cash and cash equivalents - End of fiscal year	\$ 124,829,369	\$ 544,978,012	\$ 26,712,427	\$ 696,519,808
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ 32,804,070	\$ 27,278,381	\$ 4,403,851	\$ 64,486,302
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Investment income	(60,694,923)	(63,570)	(28,955)	(60,787,448)
Other income	(21,748)	(6,068,298)	(8,752)	(6,098,798)
Interest expense	181,836,901	1,221,555	671,675	183,730,130
Amortization of deferred charges	13,854,331	1,144,448	529,765	15,528,544
Changes in assets and liabilities:				
(Increase) decrease in other receivables	(199,724,361)	12,049,981	624,121	(187,050,260)
Increase (decrease) in other payables	553,300	(1,322,443)	(693,280)	(1,462,423)
(Increase) decrease in bonds, notes, and loans receivable	115,901,803	234,030,161	4,513,237	354,445,200
Net cash provided by (used in) operating activities	\$ 84,509,372	\$ 268,270,215	\$ 10,011,661	\$ 362,791,248

The accompanying notes are an integral part of the financial statements.

MICHIGAN FINANCE AUTHORITY
Fiduciary Fund - Private Purpose Trust
Statement of Fiduciary Net Assets
As of September 30, 2011

	<u>Michigan Guaranty Agency Federal Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents (Note 4)	\$ 10,131,856
Receivable from federal government	19,421,318
Interest receivable	176
Total current assets	<u>\$ 29,553,350</u>
 Total assets	 <u><u>\$ 29,553,350</u></u>
 LIABILITIES	
Current liabilities:	
Accounts payable and other liabilities	\$ 5,040,942
Payable to other funds	1,542,833
Student loan claims payable	9,930,252
Total current liabilities	<u>\$ 16,514,027</u>
 Total liabilities	 \$ 16,514,027
 NET ASSETS	
Net assets held in trust	<u>13,039,324</u>
 Total liabilities and net assets held in trust	 <u><u>\$ 29,553,350</u></u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN FINANCE AUTHORITY
Fiduciary Fund - Private Purpose Trust
Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended September 30, 2011

	<u>Michigan Guaranty Agency Federal Fund</u>
Additions:	
Federal revenue	\$ 117,740,794
Loans recovered, repurchased, and rehabilitated	78,479,807
Investment income	41,497
Fees	2,479,556
Total additions	<u>\$ 198,741,654</u>
Deductions:	
Student loan claims paid to lenders	\$ 122,479,193
Payments to federal government	76,851,422
Other expense	1,841,957
Total deductions	<u>\$ 201,172,572</u>
Net increase (decrease)	\$ (2,430,918)
Net assets - Beginning of fiscal year	<u>15,470,243</u>
Net assets - End of fiscal year	<u><u>\$ 13,039,324</u></u>

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements

Note 1 Significant Accounting Policies

The accounting policies of the Michigan Finance Authority (the Authority) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

a. Reporting Entity

The Authority is a discretely presented component unit of the State of Michigan that consolidated certain public finance authorities in Michigan in accordance with Executive Order No. 2010-2, effective May 30, 2010. The Authority combined the operations of 10 different public finance authorities (Michigan Forest Finance Authority, Michigan Higher Education Assistance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Student Loan Authority, Michigan Municipal Bond Authority, Michigan Public Educational Facilities Authority, Michigan State Hospital Finance Authority, Michigan Tobacco Settlement Finance Authority, Michigan Underground Storage Tank Financial Assurance Authority, and State Higher Education Facilities Commission). In addition, the authorization to finance the facilities of public and private schools formerly under the Michigan Strategic Fund and to issue bonds and notes on behalf of the State Land Bank Fast Track Authority was transferred to the Authority.

The Authority is governed by its own Board of Directors, comprised of seven members, consisting of the State Treasurer as chair and six appointees of the Governor with the advice and consent of the State Senate. The Board provides overall governing direction for the Authority. The Authority is not empowered to create, in any fashion, debt or liabilities on behalf of the State or to pledge the full faith and credit of the State. All administrative functions of the Authority, including budgeting, procurement, personnel, and management functions, are under the direction and supervision of the State Treasurer.

The Authority is empowered to borrow money and to issue its bonds and notes to provide sources of funding for loans to governmental units and school districts. In addition, the Authority may issue bonds and notes to provide sources of funding for nonpublic, nonprofit institutions of higher education; governmental units; and eligible healthcare providers and facilities and to undertake or continue public and capital improvements by assisting governmental units in financing and marketing municipal debt and tax-exempt bonds.

The Authority is also empowered to complement and supplement the student loan efforts of Michigan private lenders by making loans and acquiring loans made to students and their parents, thereby enhancing access to higher education. The Authority's Michigan Guaranty Agency was formed for the purpose of guaranteeing loans made to qualified students and parents of qualified students through approved financial institutions.

The accompanying financial statements report the financial position and the changes in financial position and, where applicable, cash flows of the Authority, a discretely presented component unit of the State of Michigan, as of September 30, 2011 and for the fiscal year then ended. Accordingly, they do not purport to, and do not, present fairly the financial position and the changes in financial position and cash flows of the State of Michigan or its component units in conformity with GAAP. The financial statements of the Authority are included in the *State of Michigan Comprehensive Annual Financial Report*.

b. Authority Programs

- (1) The Authority's Tobacco Settlement Fund (previously the Michigan Tobacco Settlement Finance Authority) was authorized by the provisions of Act 226, P.A. 2005, and amended by Act 18, P.A. 2007. The purpose of the Act is to provide for the sale by the State and the purchase by the Authority of all or a portion of tobacco settlement assets and to authorize the issuance of bonds. The

Authority issued bonds secured by a pledge of a percentage of the State of Michigan's tobacco settlement revenue (TSR) and deposited the bond proceeds in the State of Michigan's General Fund, School Aid Fund, and 21st Century Jobs Trust Fund.

- (2) The Authority's Municipal Bond Fund (previously the Michigan Municipal Bond Authority) was created pursuant to Act 227, P.A. 1985, to provide alternative sources of funding for governmental units within the State to undertake or continue public improvements by assisting those governmental units in financing and marketing municipal debt. The Municipal Bond Fund includes the Local Municipalities Subfund, State Revolving Subfund, Strategic Water Quality Initiatives Subfund, and School Loan Revolving Subfund:
 - (a) The Local Municipalities Subfund includes the financing activities for municipalities, excluding those activities for school districts, water pollution control, and drinking water projects reported in the other subfunds.
 - (b) The Department of Treasury and the Department of Environmental Quality (DEQ) each serve as co-administrators of the Clean Water Program and Drinking Water Program within the State Revolving Subfund and the Strategic Water Quality Initiatives Subfund. The Authority provides reduced interest loans for the construction of water pollution control and drinking water projects. The programs can operate as a direct loan program or can provide assistance through the sale of Authority bonds.
 - (c) The Authority's School Loan Revolving Subfund is a self-sustaining fund and was established by Act 93, P.A. 2005, to make loans to school districts to assist in paying debt service on qualified bonds issued by school districts for capital improvement projects. Any money repaid by school districts on loans is deposited back into the revolving fund for future use in funding new loans.

- (3) The Authority's Student Loan Fund (previously the Michigan Higher Education Student Loan Authority) was created and organized under Act 222, P.A. 1975, as amended, to complement and supplement the student loan efforts of Michigan private lenders by making loans and acquiring loans made to students and their parents, thereby enhancing access to higher education.
- (4) The Authority's Michigan Guaranty Agency (MGA) (previously reported under the Michigan Higher Education Assistance Authority) was formed for the purpose of guaranteeing loans made to qualified students and parents of qualified students through approved financial institutions. The MGA Federal Fund accounts for funds and property received from various sources and held by the Authority on behalf of the U.S. Department of Education (USDOE).
- (5) The Authority's Public School Academy Facilities Fund (previously the Michigan Public Educational Facilities Authority) was authorized by Executive Reorganization Order No. 2002-3 (Section 12.192 of the *Michigan Compiled Laws*) to issue bonds for the purpose of making loans through the purchase of municipal obligations in fully marketable form of a governmental unit or making loans to a nonprofit entity for the benefit of a public school academy. All Public School Academy Facilities Fund bonds are limited obligations of the Authority and are not obligations of the State and therefore are not presented in the financial statements. Fees generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.

c. Other Authority Operations

- (1) The Authority's Healthcare Finance Fund (previously the Michigan State Hospital Finance Authority) was organized under Act 38, P.A. 1969, as amended, to facilitate the ability of eligible healthcare providers and facilities to obtain financing and refinancing for capital improvements by obtaining loans from the Authority. The Authority issues bonds for facility equipment loans through the Healthcare

Equipment Loan Program and issues revenue bonds and bonds for other capital needs of the facilities. All Healthcare Finance Fund program bonds are limited obligations of the Authority and are not obligations of the State and therefore are not presented in the financial statements. Fees generated by the Authority on the Healthcare Finance Fund limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.

- (2) The Authority's Higher Education Facilities Fund (previously the Michigan Higher Education Facilities Authority) was organized under Act 295, P.A. 1969, as amended, to issue tax-exempt bonds and lend the proceeds to nonpublic, nonprofit institutions of higher education within the State for capital improvements. All Higher Education Facilities Fund program bonds are limited obligations of the Authority and are not obligations of the State and therefore are not presented in the financial statements. Fees generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.
- (3) The Authority's Michigan Strategic Fund was organized under Act 270, P.A. 1984, as amended, to issue tax-exempt bonds and lend the proceeds to private schools to finance facilities. All Michigan Strategic Fund program bonds are limited obligations of the Authority and are not obligations of the State and therefore are not presented in the financial statements. Fees generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.

d. Basis of Presentation

The basic financial statements have been prepared in accordance with GAAP as prescribed by the Governmental Accounting Standards Board (GASB). The Authority follows the governmental and business-type activities reporting requirements of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. These requirements provide

a comprehensive one-line look at the Authority's financial activities, which are presented in the following financial statements:

(1) Government-Wide Financial Statements

The Authority's statement of net assets and statement of activities report information on all non-fiduciary activities of the Authority. The Authority's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by charges to external parties for goods or services. The statement of net assets presents the Authority's non-fiduciary assets and liabilities, with the difference reported as net assets. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Program revenues include charges to users who directly benefit from the services and grants and contributions that are restricted to meeting the requirements of a function. Taxes and other items not meeting the definition of program revenues are reported as general revenue.

(2) Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual funds are reported as separate columns in the fund financial statements, with non-major proprietary funds being combined into a single column.

The Authority's major governmental funds include the Tobacco Settlement General Fund and the Tobacco Settlement Debt Service Fund. The Authority's major proprietary funds include the Municipal Bond Fund and the Student Loan Fund. The non-major proprietary funds include the MGA - Operating Fund, Michigan Finance Authority - Operating Fund, and Public School Academy Facilities Fund. The Authority's fiduciary fund is the MGA Federal Fund.

e. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, generally within 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due and payable.

The Authority follows the accounting rules promulgated by GASB. In addition, the Authority follows all Financial Accounting Standards Board statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless pronouncements conflict with or contradict GASB statements.

f. Major Account Classifications: Assets, Liabilities, and Net Assets/Fund Balance

- (1) Cash and Cash Equivalents - The Authority's cash and cash equivalents include deposits with financial institutions and equity in common cash maintained by the State Treasurer. In addition, the Student Loan Fund, Public School Academy Facilities Fund, MGA - Operating Fund, and MGA Federal Fund include as cash equivalents highly liquid short-term investments, with original maturities of three months or less, used for cash management rather than investing activities.

- (2) Investments - The Authority invests funds that will not be needed for program use in the near term in investments that include money market funds, commercial paper, U.S. Treasury obligations, repurchase agreements, and bonds. The investment objective is the preservation of capital while managing the cash flow requirements for making debt service payments to bondholders when due and payment of other obligations as required pertaining to rating agency and trustee charges.

The Authority reports investments at fair market value based on quoted market prices, consistent with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, except for commercial paper, U.S. Treasury notes, and U.S. Treasury bills, which are all reported at amortized cost if purchased within one year of maturity, and repurchase agreements, which are reported using cost-based measures because they are nonparticipating interest-earning investment contracts.

- (3) Tobacco Settlement Revenue (TSR) Receivable - This receivable represents the revenue earned as a result of the sale by the State of a portion of its future TSR. The receivable is recognized as revenue in the government-wide financial statement but is deferred in the governmental general fund and the debt service fund financial statements.
- (4) Notes Receivable - The Authority issues State aid notes and loans the proceeds to school districts and public school academies to meet cash flow needs for operating purposes.
- (5) Loans Receivable - The Authority has outstanding loans with local units of government, public schools, and students and parents. Premiums on loans are included in loans receivable and amortized over the remaining life of the loans as a reduction to interest income.

- (6) Bonds Receivable - Bonds receivable consist of the value of bonds purchased from governmental units that will generate regular principal and interest payments over the life of the bonds.
- (7) Deferred Charges/Financing Costs - Deferred charges represent bond and note issuance costs as of September 30, 2011. These costs are being amortized using the interest method over the life of the related notes and bonds.
- (8) Capital Assets - Purchases by the Authority for use in its operations that meet the requirements of the State of Michigan's capitalization policy are capitalized in accordance with GASB Statement No. 34. For the fiscal year ended September 30, 2011, the Authority had no capitalized equipment purchases. Costs incurred for computer software developed or obtained for internal use are capitalized and amortized over the software's useful life of 12 years. Costs incurred for office equipment are capitalized and depreciated over the equipment's useful life of five years.
- (9) Accounts Payable and Other Liabilities - The Authority's accounts payable relate to services provided by vendors and employees and other costs incurred but not yet paid as of year-end.
- (10) Bonds Payable - The Authority issues bonds to provide funding for its various programs. In the government-wide and proprietary fund statements, bond premiums, discounts, and issuance costs are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund statements, bond premiums, discounts, and issuance costs are recognized in the current period. The face amount of the debt issued, premiums, and discounts are reported as other financing sources and uses. Issuance costs are reported as debt service expenditures.

- (11) Notes Payable - State aid anticipation notes are payable by the Authority, through designated trustees, solely from funds received from each participating public school in payment of the school's notes and from investment earnings, undisbursed note proceeds, and other funds of each participating public school retained by the trustees on a note issue-specific basis.
- (12) Arbitrage Payable - In accordance with provisions of the Internal Revenue Code and related regulations, interest income from investments related to the Authority's tax-exempt bond issues is generally limited to the bond yield of the related bond issue. Similarly, loan income on all tax-exempt bond issues that may be retained by the Authority is limited to the bond yield plus an allowable spread. Reserves are maintained for estimated future payments of excess loan and investment income. Payments of excess loan or investment income are required to be made to the federal government on a periodic basis during the term and at final maturity of the related bond issue.
- (13) Deferred Revenue - The Authority records deferred revenue when revenue is unearned or unavailable in governmental fund statements primarily for the TSR receivable.
- (14) Compensated Absences - In the government-wide and proprietary fund financial statements, compensated absences are reported as liabilities. Compensated absences are accrued employee vacation, banked leave time, and sick leave time. In governmental fund financial statements, liabilities for compensated absences are accrued when they are considered due and payable and recorded in the fund only for separations or transfers that occur before year-end. The Authority is allocated a percentage of assigned employees of the Department of Treasury. The Authority allocates employee payroll costs among the various Authority operating funds as appropriate to where the employees' time resources are concentrated.

- (15) Net Assets/Fund Balance - The difference between fund assets and liabilities is net assets on the government-wide, proprietary fund, and fiduciary fund financial statements. The difference between fund assets and liabilities is fund balance on the governmental fund financial statement. Fund balances for the Authority's governmental funds are classified as restricted in the fund financial statements. Restricted fund balance reflects funds that have constraints placed on the use of the resources through enabling legislation and bond covenants.
- (16) Restricted Net Assets - Substantially all of the assets of the Authority are pledged for payment against the various bond indentures. The State Revolving Subfund, Strategic Water Quality Initiatives Subfund, and School Loan Revolving Subfund restricted net assets are for the construction of water pollution control and drinking water projects, sewage system improvements, and qualified loans to school districts.

g. Major Account Classifications: Revenues, Expenses/Expenditures, and Additions/Deductions

- (1) Governmental Funds - Revenues are primarily from the Authority's share of the TSR received from the State of Michigan under the terms of the Master Settlement Agreement (MSA). Expenditures are primarily debt service principal and interest on outstanding bonds.
- (2) Proprietary Funds - Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are reported as nonoperating.

The Authority's primary operations include issuing bonds, providing and acquiring loans, purchasing local unit bonds, and guaranteeing qualified student loans. The operating revenues and expenses and

the nonoperating revenues and expenses from the Authority's primary operations include:

- (a) Operating Revenues - The principal operating revenues of the Authority are federal grants, interest earned on loans, investment revenue, and charges to customers for financing services. Federal revenue is for subsidized student loan interest, defaulted student loans, guaranty loan activity fees, and grants for the credit enhancement for charter school facilities.

Fees are generated from student loan default and default aversion services and repurchased, rehabilitated, and consolidated loan services. The federal default fee is equal to 1.0% of the principal amount of the loan and is accounted for in the MGA Federal Fund. The default aversion fee is for aversion activities on delinquent loans at the time lenders request default aversion assistance and is equal to 1.0% of principal and interest on the loan and is paid from the MGA Federal Fund to the MGA - Operating Fund in the non-major funds. Repurchased, rehabilitated, and consolidated loan fees are received for collection costs and recorded in the MGA - Operating Fund.

- (b) Operating Expenses - Operating expenses of the Authority include interest expense on bonds and notes, the cost of financing services, grants to public school academies, expenses related to servicing loans, and administrative expenses.
- (c) Nonoperating Revenues/Expenses - Nonoperating revenues include the American Recovery and Reinvestment Act of 2009 (ARRA) federal grants, U.S. Environmental Protection Agency capitalization grants, and capital provided by the primary government and recognized as operating subsidies.

Nonoperating expenses represent the disbursement of grant funds. The Authority reported operating subsidies of \$277.0 million, nonoperating revenue of \$0.2 million, and nonoperating expenses of \$32.0 million in its proprietary fund statement of revenues, expenses, and changes in net assets.

- (3) Fiduciary Fund - Additions include federal funds, recovery of funds from potentially defaulted loans, and repurchased loans or loans that have been rehabilitated. Deductions include loan claims from financial institutions for loans on which the student defaulted and the unpaid loans have been acquired by MGA and payments to the federal government for recovered, repurchased, or rehabilitated loans for which the claim was already paid.

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The Authority estimates the arbitrage liability.

Note 2 Accounting Changes and Restatements

a. Implementation of GASB 54

In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), effective for periods beginning after June 15, 2010. In fiscal year 2010-11, the Authority implemented GASB 54. GASB 54 changed the terminology and classification of fund balances to reflect spending constraints on the reported resources. It also changed the definition of various fund types such that the Authority is required to report TSR restricted for debt service for current and future periods directly in its debt service fund rather than initially in a special revenue fund. The Authority is also required to report TSR restricted for administrative expenditures in a new general fund and no longer in a special revenue fund.

GASB 54 changed the display of fund balances in the governmental fund financial statements and requires that governments disclose certain fund balance classifications and policies in the notes to the financial statements.

As a result of the Authority implementing GASB 54, it established the Tobacco Settlement General Fund to account for the TSR restricted for administrative expenditures and restated beginning fund balance by \$0.2 million for the unexpended TSR. Also, the Authority restated beginning fund balance in the Tobacco Settlement Debt Service Fund by \$104.0 million for unexpended TSR restricted for debt service. GASB 54 did not have any impact on the Authority's reported levels of total governmental fund balances or net assets (deficit). Fund balances in the Tobacco Settlement Funds will be classified as restricted because of constraints placed on the resources through bond documents.

b. Accounting Consolidation

As a result of Executive Order No. 2010-2, the Authority consolidated the resources available for operating expenses from the Municipal Bond Fund, a major fund, and resources available for operating expenses from the non-major funds of the Higher Education Facilities Fund, Public School Academy Facilities Fund, and Healthcare Finance Fund into the Michigan Finance Authority - Operating Fund, a non-major fund. In this accounting consolidation, the Authority eliminated the Higher Education Facilities Fund and the Healthcare Finance Fund for financial statement reporting purposes, but the funds remain to account for the limited obligation bonds that are not recorded as liabilities of the Authority (see Note 10).

This accounting consolidation resulted in a \$7.8 million decrease to net assets - beginning of fiscal year for the Municipal Bond Fund and a related increase to net assets - beginning of fiscal year for non-major funds. The resources are available for the Authority's payroll and administrative overhead costs.

The operating funds for the Tobacco Settlement Fund, Student Loan Fund, MGA, State Revolving Subfund, and Strategic Water Quality Initiatives Subfund were not consolidated into the new operating fund because of restrictions on the resources from various program reimbursement agreements and operating caps outlined in the bond documents.

c. Reclassification of Student Loan Fund Revenues and Expenses

In fiscal year 2010-11, the Authority classified as federal revenue the \$10.5 million interest subsidy received from the USDOE for subsidized Stafford Loans*. In fiscal year 2009-10, these subsidies were classified as interest revenue. Also, in fiscal year 2010-11, the Authority classified as federal revenue the \$0.8 million special allowance received from the USDOE to adjust the Authority's yield on student loans and the \$28.9 million negative special allowance paid to the USDOE in accordance with the federal Deficit Reduction Act of 2005. In fiscal year 2009-10, these were classified as miscellaneous revenue.

In addition, in fiscal year 2010-11, the Authority classified \$10.8 million of loan defaults as write-offs of prior year loans receivables. In fiscal year 2009-10, loan defaults were classified as other administrative expenses.

Note 3 Deficit Net Asset Balance

The Authority is reporting a net asset deficit balance of \$946.8 million at September 30, 2011 in the governmental activities entity-wide statement of net assets. The payments to be received for the Tobacco Settlement Fund under the MSA represent a share of anticipated future sales of tobacco products. Although the Authority expects to receive certain amounts under the MSA, the collections are not subject to accrual under GAAP.

Under GAAP, such contingent amounts cannot be recognized as a receivable or revenue until the actual tobacco sales have occurred and the settlement payment amount is measurable and available. However, the Authority's bond issuance is recorded as a liability on the entity-wide financial statements, resulting in a net deficit.

* See glossary at end of report for definition.

Note 4 Deposits and Investments

Deposits and investments held by the Authority at September 30, 2011 were as follows:

	Governmental Activities Governmental Funds	Business-Type Activities Proprietary Funds	Fiduciary Fund	Total
Deposits	\$ 0	\$ 134,779,659	\$ 1,527,034	\$ 136,306,693
Investments	\$ 103,100,859	\$ 2,464,306,202	\$ 9,383,948	\$2,576,791,009

- a. State statutes, board resolutions, and bond indentures authorize allowable investments for the various funds. The permissible investments for the various funds include:

(1) Governmental Activities - Tobacco Settlement Funds

The Authority is authorized by State statute to invest any money of the Tobacco Settlement Fund, at the Authority's discretion, in any obligations it determines as proper. The Authority's bond indenture restricts the Authority to investments rated "A-1" or higher by Standard & Poor's (S&P), "P-1" by Moody's Investors Service (Moody's), and "F1" by Fitch Ratings (Fitch).

(2) Business-Type Activities

(a) Municipal Bond Fund

The Authority is authorized by State statute to direct and manage its investments within the provisions of law applicable to State funds or resolutions authorizing bonds or notes. In addition, the Master Bond and Note Indentures for the various programs within the Municipal Bond Fund may define additional eligible investments.

(b) Student Loan Fund

The Authority is authorized by State statute to invest in obligations of, or guaranteed by, the U.S. government or the State of Michigan; U.S. government or federal agency

obligation repurchase agreements; mutual funds; common trust funds; bankers' acceptances; certificates of deposit; savings and deposit accounts; and commercial paper.

(c) Michigan Guaranty Agency (MGA) - Operating Fund

The Authority is authorized by board resolution to invest in obligations of, or guaranteed by, the U.S. government; U.S. government or federal agency obligation repurchase agreements; mutual funds; common trust funds; bankers' acceptances; certificates of deposit; savings and deposit accounts; and commercial paper.

(d) Michigan Finance Authority - Operating Fund

Cash and investments applicable to operations from the Local Municipalities Subfund, Higher Education Facilities Fund, Public School Academy Facilities Fund, and Healthcare Finance Fund were consolidated into the Michigan Finance Authority - Operating Fund. State statutes for these funds authorize the allowable investments. The authorized investments for the Local Municipalities Subfund are identified under the Municipal Bond Fund in part (a) of this note, and the authorized investments for the Public School Academy Facilities Fund are identified in part (e) of this note. The authorized investments for the Higher Education Facilities Fund are obligations of, or guaranteed by, the U.S. government or the State of Michigan and certificates of deposit. The authorized investments for the Healthcare Finance Fund are obligations of, or guaranteed by, the U.S. government or the State of Michigan, certificates of deposit, commercial paper, U.S. government repurchase agreements, mutual funds, bankers' acceptances, and other obligations approved by the State Treasurer.

(e) Public School Academy Facilities Fund

The Authority is authorized by State statute to invest within the provisions of law applicable to State funds or resolutions authorizing bonds or notes. In addition, the Master Bond and Note Indentures may define additional eligible investments.

(3) Fiduciary Fund - MGA Federal Fund

The Authority is authorized by board resolution to invest in obligations of, or guaranteed by, the U.S. government; U.S. government or federal agency obligation repurchase agreements; mutual funds; common trust funds; bankers' acceptances; certificates of deposit; savings and deposit accounts; and commercial paper.

- b. The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

- (1) Custodial Credit Risk for Deposits - Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Authority's deposits may not be recovered. The Authority had \$136.3 million in deposits at September 30, 2011. Of this balance, \$126.4 million was invested in the State of Michigan's common cash pool and \$9.9 million was the carrying value of cash in financial institutions.

The common cash pool is managed by the State Treasurer and is authorized to invest surplus funds in depository accounts at financial institutions; bonds, notes, and other U.S. government debt; prime commercial paper; certificates of deposit; and special State investment programs. At September 30, 2011, the common cash pool held the majority of its funds in depository accounts (45%) and prime commercial paper (54%). The State Treasurer's policy for common cash depository accounts requires financial institutions to secure State funds with collateral, to be organized under federal or State law, and to maintain an office in Michigan. The policy also restricts deposits to a maximum of 50% of the financial institution's net worth. As of September 30, 2011, 99.7% of the State's common

cash depository accounts were either covered by federal depository insurance or collateralized with securities held in the State's name by the State's agent. The State Treasurer's policy requires prime commercial paper to be rated "A-1" by S&P or "P-1" by Moody's or higher at purchase and places requirements and restrictions on the borrower. Additional details on the common cash pool policies and risk disclosures are described in the *State of Michigan Comprehensive Annual Financial Report*.

The Authority does not have a policy for controlling custodial credit risk. Of the \$9.9 million deposited in financial institutions, \$2.3 million was insured by the Federal Depository Insurance Corporation or the National Credit Union Administration, and \$7.6 million was uninsured and uncollateralized and therefore exposed to custodial credit risk at September 30, 2011.

- (2) Custodial Credit Risk for Investments - Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name. The Authority does not have a policy for controlling custodial credit risk. At September 30, 2011, commercial paper of \$318.6 million from business-type activities (12.4% of the Authority's investments) was exposed to custodial credit risk because it was held by the counterparty.
- (3) Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority does not have a policy for controlling interest rate risk. The Authority's investment objective is the preservation of capital while managing the cash flow requirements to meet debt service payments to bondholders and other obligations as required. Investment timing for managing cash flow requirements is relative to

the rates in securities at the time each investment decision is required to be made. To the extent possible, the Authority considers laddering investment maturities to meet cash flow requirements. Other than to keep all funds not required for immediate use in cash, there is no practical method to mitigate interest rate risk to hedge the rise of interest rates. Also, the Authority makes investments in accordance with applicable statutory and bond indenture provisions.

At September 30, 2011, the average maturities of investments were as follows:

Type of Investment	Fair Value	Investment Maturities			
		Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
<u>Governmental Activities</u>					
Government money market funds	\$ 32,146,869	\$ 32,146,869	\$	\$	\$
Repurchase agreement	37,801,532				37,801,532
State of Illinois general obligation bonds	33,152,457		33,152,457		
Total Governmental Activities	<u>\$ 103,100,859</u>	<u>\$ 32,146,869</u>	<u>\$ 33,152,457</u>	<u>\$ 0</u>	<u>\$ 37,801,532</u>
<u>Business-Type Activities</u>					
Government money market funds	\$ 1,199,970,947	\$ 1,199,970,947	\$	\$	\$
Repurchase agreements	817,507,890		20,406,497	48,739,705	748,361,687
Commercial paper	318,573,594	318,573,594			
U.S. Treasury bills	1,997,877	1,997,877			
U.S. Treasury notes	2,050,369	2,050,369			
U.S. Treasury bonds	11,000	6,000	5,000		
U.S. Treasury state and local government series	56,960,405	12,609,159	22,225,577	22,125,669	
State of Michigan general obligation bonds	67,234,120			67,234,120	
Total Business-Type Activities	<u>\$ 2,464,306,202</u>	<u>\$ 1,535,207,946</u>	<u>\$ 42,637,074</u>	<u>\$ 138,099,494</u>	<u>\$ 748,361,687</u>
<u>Fiduciary Fund</u>					
Government money market funds	\$ 9,383,948	\$ 9,383,948			

- (4) Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's policy limits funds to \$150 million with any single issuer, except when the investments are collateralized; requires investments to be in the top three rating categories provided by S&P, Moody's, or Fitch; requires minimum levels of 102% of specific collateral for repurchase agreements; and allows exceptions to these requirements only with executive management approval.

At September 30, 2011, the credit quality ratings of debt securities, excluding U.S. government securities of \$61.0 million which are not considered to have credit risk, were as follows:

Type of Investment	Fair Value	Rating	Rating Organization
<u>Governmental Activities</u>			
Governmental money market funds	\$ 32,146,869	AAAm	S&P
Repurchase agreement	37,801,532	BBB	S&P
State of Illinois general obligation bonds	33,152,457	A+	S&P
Total Governmental Activities	<u>\$ 103,100,859</u>		
<u>Business-Type Activities</u>			
Governmental money market funds	\$1,199,970,947	AAAm	S&P
Repurchase agreement	20,406,497	A+	S&P
Repurchase agreement	147,924,081	A	S&P
Repurchase agreement	187,890,760	BBB	S&P
Repurchase agreement	96,751,142	AA+	S&P
Repurchase agreement	125,153,577	AA-	S&P
Repurchase agreement	500,000	Aaa	Moody's
Repurchase agreement	190,642,127	A+	S&P
Repurchase agreement	48,239,705	A3	Moody's
State of Michigan general obligation bonds	67,234,120	AA-	S&P
Commercial paper	161,911,711	A-1+	S&P
Commercial paper	156,661,883	A-1	S&P
Total Business-Type Activities	<u>\$2,403,286,553</u>		
<u>Fiduciary Fund</u>			
Government money market funds	\$ 9,383,948	AAAm	S&P

- (5) Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributable to the magnitude of the Authority's investments with a single issuer. The Authority's policy limits funds to \$150 million with any single issuer, except when the investments are collateralized; requires investments to be in the top three rating categories provided by S&P, Moody's, or Fitch; requires minimum levels of 102% of specific collateral for repurchase agreements; and allows exceptions to these requirements only with executive management approval.

At September 30, 2011, the Authority had investments of more than 5% of the Authority's total investments by fund activity type in the

following issuers, excluding investments issued or explicitly guaranteed by the U.S. government and mutual funds, which are excluded from this risk by GASB:

Type of Investment/Name of Issuer	Fair Value	Percent of Investments
<u>Governmental Activities</u>		
Repurchase agreement - Hypo Public Finance Bank/Depfa	37,801,532	37%
State of Illinois general obligation bonds	33,152,457	32%
<u>Business-Type Activities</u>		
Repurchase agreement - Citigroup Global Markets	147,924,081	6%
Repurchase agreement - Societe Generale	190,642,127	8%
Repurchase agreement - Hypo Public Finance Bank/Depfa	187,890,760	8%
Repurchase agreement - JP Morgan	125,153,577	5%
Commercial paper - Bank of Montreal	150,004,830	6%
Commercial paper - GE	151,391,711	6%

Note 5 Receivable From Primary Government for Business-Type Activities

a. Municipal Bond Fund - State Revolving Subfund

The receivable from the State of Michigan recorded in the Municipal Bond Fund - State Revolving Subfund relates to amounts owed to the Authority for bonds issued by the State in 1992 and 1993 and placed into State Revolving Subfund reserves to secure bonds issued under that program. The receivable to pay for the corresponding bonds payable disclosed in Note 9 was \$5.0 million at September 30, 2011.

b. Municipal Bond Fund - School Loan Revolving Subfund

The receivable from the State of Michigan recorded in the Municipal Bond Fund - School Loan Revolving Subfund is collateralized by two different sources: school districts that previously borrowed from the School Bond Loan Fund, which is a restricted subfund of the State of Michigan's General Fund, and school districts that have borrowed through the School Loan Revolving Subfund. The receivable to pay for the corresponding bonds payable disclosed in Note 9 was \$853.7 million at September 30, 2011.

Note 6 Notes Receivable

a. Municipal Bond Fund

The Authority originated loans to public schools to meet cash flow needs for spending purposes from the proceeds of its State aid anticipation notes. Collections of the receivable for the notes outstanding are used to pay for the corresponding notes payable disclosed in Note 9. The balance of notes receivable was \$944.1 million at September 30, 2011. The notes receivable bore interest ranging from 0.3% to 6.65% during fiscal year 2010-11.

b. Non-Major Fund - Public School Academy Facilities Fund

The Authority originated loans to public school academies to meet cash flow needs for operating purposes from the proceeds of its State aid anticipation notes. Collections of the receivable for the notes outstanding are used to pay for the corresponding notes payable disclosed in Note 9. The balance of notes receivable was \$37.5 million at September 30, 2011. The notes receivable bore interest ranging from 2.48% to 3.45% during fiscal year 2010-11.

Note 7 Loans Receivable, Net

Net loans receivable of \$4,177.4 million consisted of the following at September 30, 2011:

a. Municipal Bond Fund - Local Municipalities Subfund

The loans receivable consist of \$38.1 million from public school academies and \$156.4 million from Detroit Public Schools for fiscal year 2010-11. Collections of the receivable for the loans outstanding are used to pay for the corresponding bonds payable disclosed in Note 9. Scheduled repayments of \$14.9 million are expected to be collected during fiscal year 2011-12.

b. Municipal Bond Fund - State Revolving Subfund

The State Revolving Subfund has made commitments to municipalities to loan funds for construction of publicly owned water pollution control facilities and drinking water projects. These loans are primarily secured

by system revenues of local municipalities, limited tax general obligation pledges, revenue-sharing pledge agreements, unlimited tax general obligations, and/or reserve funds. Amounts committed for the Clean Water Program were \$3,325.7 million and, as of September 30, 2011, loans of \$1,964.7 million were outstanding. Amounts committed for the Drinking Water Program were \$625.1 million and, as of September 30, 2011, loans of \$409.8 million were outstanding. Scheduled repayments of \$175.9 million are expected to be collected during fiscal year 2011-12.

c. Municipal Bond Fund - Strategic Water Quality Initiatives Subfund

The Strategic Water Quality Initiatives Subfund has made commitments to municipalities to loan funds for purposes, such as footing drain disconnects and septic system upgrades, that are generally not eligible to be financed through the State Revolving Subfund. These loans are primarily secured by local municipalities limited or unlimited tax general obligations or system revenue, and some are additionally secured by revenue-sharing pledge agreements and/or reserve funds. Amounts committed were \$21.1 million as of September 30, 2011, and receivables outstanding were \$11.3 million. Scheduled repayments of \$0.6 million are expected to be collected during fiscal year 2011-12.

d. Student Loan Fund

Loans include educational loans made under the Federal Family Education Loan Program (FFELP) to students (Stafford Loans), to parents of dependent undergraduates (PLUS Loans*), and to borrowers consolidating certain student loans (Consolidation Loans*). These loans are federally insured. The terms of federal loans, which vary, generally provide for repayment in monthly installments of principal and interest over a period of up to 10 years. Loans also include education loans made under the Authority's Michigan Alternative Student Loan (MI-LOAN) Program, which are not federally insured. The following are descriptions

* See glossary at end of report for definition.

of the loans and adjustments that comprise the net loans receivable of \$1,597.2 million:

- (1) Stafford Loans - Stafford Loans may be subsidized or unsubsidized. Interest is paid on subsidized Stafford Loans during the enrolled and grace periods by the USDOE, whereas borrowers must either pay interest from the time of the loan or capitalize the interest until repayment begins on unsubsidized Stafford Loans. Stafford Loans may bear fixed or variable rate interest with fixed rates ranging primarily from 5.6% to 6.8% and variable rates equivalent to the annual average U.S. Treasury bill rate, plus a factor of up to 3.25% depending on the status and/or date of disbursement of the loan.
- (2) Consolidation Loans - Interest rates on Consolidation Loans are fixed, calculated by rounding the weighted average of the interest rates on the loans consolidated to the nearest 1/8 of 1%, or variable based on the 91-day U.S. Treasury bill, plus 3.10%, not to exceed 8.25%.
- (3) PLUS Loans - The PLUS interest rate has been a fixed rate of 8.5% since July 1, 2006. Prior to July 1, 2006, interest rates on the PLUS Loans varied annually each July 1, based on the bond equivalent rate for the 91-day U.S. Treasury bill or one-year constant maturity, plus a factor of either 3.25% or 3.10%, depending on when borrowers obtained their first PLUS Loans.
- (4) MI-LOAN Program Loans - Under the Authority's MI-LOAN Program, loans are made to assist students in meeting the costs of education at a degree-granting college or university located in Michigan. Borrowers or eligible co-signers must meet standards of credit established by the Authority. As of September 30, 2011, the MI-LOAN Program balance outstanding was \$220.8 million. The MI-LOAN Program's fixed interest rate was 6.95% for creditworthy borrowers and the variable rate was 1.72% at September 30, 2011. Repayment begins within 60 days of the disbursement and extends over a maximum period of 25 years.

- (5) Allowance - The Authority's Stafford Loans, Consolidation Loans, and PLUS Loans are guaranteed primarily by the Authority's MGA and by Great Lakes Higher Education Guaranty Corporation and reinsured by the USDOE. Historically, the Authority has recorded an allowance to estimate the unguaranteed portion of future loan defaults. As of September 30, 2011, the Authority's recorded allowance for FFELP loans was \$2.8 million.

MI-LOAN Program loans are not guaranteed or reinsured; therefore, the Authority estimates future loan defaults and records an allowance for the estimate. As of September 30, 2011, the Authority's recorded allowance for the MI-LOAN Program loans was \$8.0 million.

- (6) Reserve Fees - The MI-LOAN Program loan origination fees, called reserve fees, are received and retained by the Authority for all MI-LOAN Program loans. The MI-LOAN Program reserve fee is 3.5% and is capitalized and recognized as an increase to interest income over the life of the loan. For fiscal year 2010-11, \$1.0 million of reserve fees was realized.
- (7) Unamortized Premiums - Also included in the loans receivable are premiums paid to the financial institutions for loans purchased. These premiums are amortized over the remaining life of the loans as a reduction to interest income. For fiscal year 2010-11, \$4.1 million of premiums was amortized.

Below is a summary of the components of the student loans receivable:

Components	2011
Loans receivable	\$1,625,375,030
Cumulative loan loss and projected loss for fiscal year 2011-12	(37,872,317)
Loan origination fees receivable	(839,481)
MI-LOAN Program reserve fees less the unamortized deferred reserve fees	9,860,418
Unamortized premiums paid	633,695
Loans receivable, net	<u>\$1,597,157,346</u>

- (8) Status of Student Loan Programs - On February 15, 2008, origination of new MI-LOAN Program loans was suspended. On April 21, 2008, the Authority suspended its origination and acquisition of new FFELP loans through its Michigan Student Loan Program and State Secondary Market, respectively. The Michigan Student Loan Program originations of FFELP loans resumed in August 2009, utilizing unencumbered Authority funds and continued through June 30, 2010. Over the course of this 11-month period, \$1.6 million of student loans were originated and subsequently sold to the USDOE under the terms of the Ensuring Continued Access to Student Loans Act (ECASLA) Loan Purchase Commitment Program. The U.S. Congress enacted legislation in the form of the Health Care and Education Reconciliation Act of 2010 on March 30, 2010 that eliminated the authorization to originate FFELP loans after June 30, 2010.

Note 8 Bonds Receivable

Bonds receivable consist of receivables from governmental units to pay corresponding Authority bonds as disclosed in Note 9. During the fiscal year, the Authority purchased local governmental units' municipal bonds for \$158.0 million from the proceeds of the Authority's bond issuance. The annual

requirements for governmental units to repay their bonds to the Authority as of September 30, 2011, including principal and interest, were as follows:

Fiscal Years Ended	Principal	Interest	Total
2012	\$ 100,466,182	\$ 42,833,213	\$ 143,299,395
2013	101,494,640	39,316,080	140,810,720
2014	88,584,270	47,542,860	136,127,130
2015	69,255,147	42,479,292	111,734,439
2016	44,020,000	22,671,415	66,691,415
2017 - 2021	178,560,000	88,892,517	267,452,517
2022 - 2026	102,580,000	53,594,862	156,174,862
2027 - 2031	61,515,000	29,078,470	90,593,470
2032 - 2036	55,635,000	10,188,104	65,823,104
2037 and thereafter	3,980,000	27,883	4,007,883
Total unadjusted bonds and interest	\$ 806,090,239	\$ 376,624,694	\$ 1,182,714,934
Amortized premium/discounts	(2,286,983)		(2,286,983)
Unamortized accretion for capital appreciation bonds	(14,582,631)		(14,582,631)
Total	\$ 789,220,626	\$ 376,624,694	\$ 1,165,845,320

Note 9 Bonds and Notes Payable, Net

a. Net bonds and notes payable of \$7,850.2 million consisted of the following at September 30, 2011:

Series	Date of Issue	Original Issue	Interest Rate Percentage*	Maturity Dates	Amounts Outstanding as of September 30, 2011
<u>Tobacco Settlement Asset-Backed Bonds:</u>					
Series 2006A - Serial	May 17, 2006	\$ 363,115,000	7.31%	June 1, 2034	\$ 338,655,000
Series 2007A - Serial	August 20, 2007	\$ 480,125,000	5.125% to 6.00%	June 1, 2047	479,290,000
Series 2007B - Capital appreciation **	August 20, 2007	\$ 35,649,948	7.25%	June 1, 2052	865,290,000
Series 2007C - Capital appreciation **	August 20, 2007	\$ 7,216,749	7.5%	June 1, 2052	195,100,000
Series 2008A - Serial	July 7, 2008	\$ 114,860,000	6.875%	June 1, 2024	114,860,000
Series 2008B - Capital appreciation **	July 7, 2008	\$ 29,874,650	8.5%	June 1, 2046	700,625,000
Series 2008C - Capital appreciation **	July 7, 2008	\$ 57,673,814	8.875%	June 1, 2058	4,395,870,000
Total Tobacco Settlement Asset-Backed Bonds					\$ 7,089,690,000
Municipal Bond Fund - Local Municipalities Subfund					
<u>Municipal State Aid and Tax Anticipation Notes:</u>					
Series 2011A-1	March 8, 2011	\$ 120,000,000	6.45%	February 20, 2012	\$ 120,000,000
Series 2011A-2	March 21, 2011	\$ 111,000,000	6.65%	March 20, 2012	111,000,000
Series 2011C-1	August 22, 2011	\$ 237,740,000	2.00%	August 20, 2012	237,740,000
Series 2011C-2	August 22, 2011	\$ 251,045,000	2.00%	August 20, 2012	251,045,000
Series 2011C-3	August 22, 2011	\$ 205,360,000	2.00%	August 20, 2012	205,360,000
Series 2011A TAN	April 12, 2011	\$ 7,500,000	Variable 4.98%	December 20, 2011	7,500,000
Series 2011B TAN	May 25, 2011	\$ 7,500,000	Variable 4.99%	December 20, 2011	7,500,000
<u>Local Government Loan Program Revenue Bonds:</u>					
Series 1986A	February 1987 to March 1989	\$ 39,475,000	7.125% to 8.625%	November 1, 2013	110,000
Series 1991C - Capital appreciation **	June 27, 1991	\$ 35,615,074	7.3%	June 15, 2015	29,295,000
Series 1992D	September 3, 1992	\$ 9,635,000	6.65%	May 1, 2012	25,000
Series 1993B	July 13, 1993	\$ 30,925,000	5.65% to 5.7%	May 1, 2017	435,000
Series 1993C	June 17, 1993	\$ 2,275,000	5.8% to 5.9%	August 1, 2013	65,000
Series 1993D	August 26, 1993	\$ 16,385,000	5.55%	May 1, 2013	180,000
Series 1994B	March 30, 1994	\$ 13,080,000	5.8%	November 1, 2013	270,000
Series 1994F	October 13, 1994	\$ 6,935,000	6.65%	November 1, 2013	270,000
Series 1994G	December 21, 1994	\$ 64,770,000	6.7% to 7.1%	November 1, 2013	850,000
Series 1994G - Capital appreciation **	December 21, 1994	\$ 7,379,737	6.85% to 7.1%	May 1, 2020	30,955,000
Series 1995A	June 22, 1995	\$ 15,205,000	6%	November 1, 2014	140,000
Series 1997A	April 29, 1997	\$ 7,705,000	5.7% to 5.875%	November 1, 2016	550,000
Series 1997B	August 14, 1997	\$ 17,375,000	5.25% to 5.5%	November 1, 2027	2,540,000
Series 1997C	October 30, 1997	\$ 16,335,000	5.1% to 5.55%	November 1, 2020	1,585,000
Series 1997D	December 22, 1997	\$ 9,300,000	5.1% to 5.3%	November 1, 2015	875,000
Series 1998A	June 16, 1998	\$ 16,100,000	4.9% to 5.2%	November 1, 2019	1,285,000
Series 1999A	February 9, 1999	\$ 10,910,000	4.6% to 5.2%	November 1, 2021	1,125,000
Series 1999B	April 28, 1999	\$ 38,605,000	4.55% to 4.85%	November 1, 2016	11,650,000
Series 1999C	June 24, 1999	\$ 16,685,000	5% to 5.375%	November 1, 2028	1,415,000
Series 1999D	November 17, 1999	\$ 8,255,000	5.4% to 6%	November 1, 2020	1,795,000
Series 2000A	May 17, 2000	\$ 10,815,000	5.45% to 6%	November 1, 2020	3,700,000
Series 2000B	November 28, 2000	\$ 5,905,000	5% to 5.75%	November 1, 2025	4,055,000
Series 2001A	March 29, 2001	\$ 9,055,000	4.4% to 5.375%	November 1, 2020	6,350,000
Series 2001B	July 12, 2001	\$ 10,065,000	4.45% to 5.15%	November 1, 2020	3,635,000
Series 2002A	July 1, 2002	\$ 30,060,000	4% to 5%	November 1, 2029	17,130,000
Series 2002B	November 1, 2002	\$ 16,790,000	3.4% to 5%	November 1, 2032	11,435,000
Series 2003A	April 7, 2003	\$ 3,980,000	4% to 4.3%	May 1, 2016	1,735,000
Series 2003B	September 30, 2003	\$ 19,665,000	3.5% to 6%	November 1, 2023	12,635,000
Series 2003C	September 30, 2003	\$ 160,000,000	5%	May 1, 2014	61,250,000
Series 2004A	February 18, 2004	\$ 41,155,000	3% to 6%	May 1, 2034	18,200,000
Series 2004B	May 13, 2004	\$ 26,830,000	3.5% to 5%	November 1, 2024	5,345,000
Series 2004C	December 16, 2004	\$ 9,985,000	3.5% to 4.25%	May 1, 2014	755,000
Series 2006A	May 10, 2007	\$ 9,825,000	4.25% to 5%	May 1, 2019	6,795,000
Series 2007A	March 29, 2007	\$ 21,875,000	4% to 5%	May 1, 2029	18,715,000
Series 2007B	August 3, 2007	\$ 98,435,000	4.25% to 5.75%	December 1, 2034	51,020,000
Series 2007C	December 19, 2007	\$ 31,080,000	3.5% to 5.0%	May 1, 2031	28,900,000
Series 2007D	December 28, 2007	\$ 19,335,000	4% to 5%	November 1, 2032	15,915,000
Series 2008A	June 26, 2008	\$ 27,000,000	Variable .42%	November 1, 2037	26,460,000
Series 2009A	March 18, 2009	\$ 28,430,000	4% to 5.75%	May 1, 2024	28,430,000
Series 2009B	March 31, 2009	\$ 34,020,000	3.125% to 7.0%	November 1, 2028	29,580,000
Series 2009C	September 23, 2009	\$ 45,795,000	3% to 5%	May 1, 2024	32,290,000
Series 2010A	March 31, 2010	\$ 27,005,000	3% to 5%	May 1, 2022	23,525,000
Series 2010B	May 18, 2010	\$ 38,245,000	1.75% to 6.7%	May 1, 2027	37,545,000
Series 2010C	May 25, 2010	\$ 6,710,000	5.05% to 6.55%	May 1, 2030	6,710,000
Series 2010D	September 30, 2010	\$ 14,290,000	2.25% to 5%	June 1, 2030	11,830,000
Series 2010E	December 16, 2010	\$ 100,000,000	5.129% to 8.369%	November 1, 2035	100,000,000
Series 2011A	March 3, 2011	\$ 31,565,000	1.25% to 6.375%	November 1, 2025	31,565,000

Series	Date of Issue	Original Issue	Interest Rate Percentage*	Maturity Dates	Amounts Outstanding as of September 30, 2011
Series 2011B	April 13, 2011	\$ 8,000,000	3.5% to 6%	November 1, 2035	\$ 8,000,000
Series 2011C	May 3, 2011	\$ 7,710,000	6.2% to 6.5%	May 1, 2026	7,710,000
Series 2011D	June 29, 2011	\$ 8,975,000	2% to 5%	May 1, 2020	8,975,000
Series 2011E	September 20, 2011	\$ 1,775,000	2% to 4.75%	May 1, 2026	1,775,000
School Loan Revenue Bonds:					
Series 2003A	March 25, 2003	\$ 197,295,000	5.25%	June 1, 2013	84,350,000
Series 2007A	May 10, 2007	\$ 74,645,000	5.22% to 5.25%	June 1, 2015	74,645,000
Series 2005B	May 24, 2005	\$ 216,090,000	5%	June 1, 2020	155,165,000
Series 2001A, Detroit Academy of Arts & Sciences	May 16, 2001	\$ 30,020,000	7.5% to 8.0%	October 1, 2031	27,400,000
Series 2001, Detroit YMCA Service Learning Academy	May 16, 2001	\$ 12,100,000	7.25% to 7.75%	October 1, 2031	10,700,000
Total Municipal Bond Fund - Local Municipalities Subfund					\$ 1,999,785,000
State Revolving Subfund:					
Series 1998A, Clean Water Revolving Fund Revenue Bonds	July 15, 1998	\$ 151,165,000	4.75% to 5.25%	October 1, 2020	\$ 11,010,000
Series 2001A, Clean Water Revolving Fund Revenue Bonds	August 23, 2001	\$ 222,800,000	4.5% to 5.25%	October 1, 2023	157,095,000
Series 2001A, Drinking Water Revolving Fund Revenue Bonds	August 23, 2001	\$ 23,825,000	4.75% to 5.25%	October 1, 2023	16,730,000
Series 2002A, Clean Water Revolving Fund Revenue Bonds	August 22, 2002	\$ 188,000,000	5% to 5.375%	October 1, 2024	142,375,000
Series 2002A, Drinking Water Revolving Fund Revenue Bonds	August 22, 2002	\$ 72,735,000	5% to 5.375%	October 1, 2024	55,030,000
Series 2002R, Clean Water Revolving Fund Revenue Bonds	August 22, 2002	\$ 469,100,000	5.25% to 5.5%	October 1, 2021	295,030,000
Series 2002R, Drinking Water Revolving Fund Revenue Bonds	August 22, 2002	\$ 109,145,000	5.25% to 5.5%	October 1, 2021	69,135,000
Series 2004A, Clean Water Revolving Fund Revenue Bonds	April 21, 2004	\$ 286,605,000	4.75% to 5%	October 1, 2026	241,440,000
Series 2004A, Drinking Water Revolving Fund Revenue Bonds	April 21, 2004	\$ 67,895,000	3% to 5.25%	October 1, 2026	56,610,000
Series 2005A, Clean Water Revolving Fund Revenue Bonds	July 26, 2005	\$ 103,630,000	4.75% to 5%	October 1, 2027	90,870,000
Series 2005A, Drinking Water Revolving Fund Revenue Bonds	July 26, 2005	\$ 79,480,000	4.75% to 5%	October 1, 2027	69,820,000
Series 2005R, Clean Water Revolving Fund Revenue Bonds	July 26, 2005	\$ 72,570,000	5%	October 1, 2020	67,520,000
Series 2006A, Clean Water Revolving Fund Revenue Bonds	November 2, 2006	\$ 150,000,000	4.2% to 5%	October 1, 2028	137,390,000
Series 2007A, Clean Water Revolving Fund Revenue Bonds	October 25, 2007	\$ 278,040,000	3.55% to 5%	October 1, 2029	266,340,000
Series 2009A, Clean Water Revolving Fund Revenue Bonds	June 30, 2009	\$ 150,805,000	3% to 5%	October 1, 2029	146,875,000
Series 2010A, Clean Water Revolving Fund Revenue Bonds	March 18, 2010	\$ 178,740,000	2.25% to 5%	October 1, 2030	178,740,000
Series 2010R, Clean Water Revolving Fund Revenue Bonds	March 18, 2010	\$ 67,420,000	4% to 5%	October 1, 2020	60,355,000
Total Municipal Bond Fund - State Revolving Subfund					\$ 2,062,365,000
School Loan Revolving Subfund:					
Series 2010A, Federally Taxable Bonds SLRF Revenue Bonds	December 15, 2010	\$ 150,000,000	Variable .23%	September 1, 2050	\$ 150,000,000
Series 2010B, Federally Taxable Bonds SLRF Revenue Bonds	December 15, 2010	\$ 150,000,000	Variable .19%	September 1, 2050	150,000,000
Series 2010C, Federally Taxable Bonds SLRF Revenue Bonds	December 15, 2010	\$ 150,000,000	Variable .19%	September 1, 2050	150,000,000
Series 2010D, Federally Taxable Bonds SLRF Revenue Bonds	December 15, 2010	\$ 85,000,000	4.996% to 6.496%	September 1, 2025	85,000,000
Total Municipal Bond Fund - School Loan Revolving Subfund					\$ 535,000,000
Student Loan Bonds:					
Series XII-N, Student Loan Refunding Revenue Bonds	September 26, 1996	\$ 14,050,000	Variable 0.543%	September 1, 2025	\$ 6,950,000
Series XII-R1-R2, Student Loan Revenue Bonds	July 28, 1999	\$ 80,000,000	Variable 0.552%	March 1, 2029	80,000,000
Series XII-U, Student Loan Revenue Bonds	July 27, 2000	\$ 53,300,000	Variable 0.315%	September 1, 2030	29,200,000
Series XII-Z2-Z3, Student Loan Revenue Bonds	July 15, 2003	\$ 120,000,000	Variable 0.307%	September 1, 2033	120,000,000
Series XVII-G, Student Loan Revenue Bonds	July 16, 2002	\$ 30,000,000	5.20% to 5.45%	September 1, 2026	29,625,000
Series XVII-H5-H6, Student Loan Revenue Bonds and Refunding Revenue Bonds	July 16, 2002	\$ 295,000,000	Variable 0.552%	March 1, 2037	139,800,000
Series XVII-I, Student Loan Revenue Bonds	October 16, 2003	\$ 30,000,000	4.75% to 5.20%	March 1, 2024	21,960,000
Series XVII-K2,K4-K7, Student Loan Revenue Bonds	July 14, 2004	\$ 508,350,000	Variable 0.555%	March 1, 2039	207,900,000
Series XVII-L, Student Loan Revenue Bonds and Refunding Revenue Bonds	July 14, 2004	\$ 25,000,000	Variable 0.525%	March 1, 2039	50,000
Series XVII-M1-M2, Student Loan Refunding Revenue Bonds	July 13, 2005	\$ 115,100,000	Variable 0.557%	September 1, 2036	104,450,000
Series XVII-N1-N5,N7, Student Loan Revenue Bonds	July 13, 2005	\$ 485,000,000	Variable 0.546%	March 1, 2040	293,900,000
Series XVII-O, Student Loan Revenue and Refunding Revenue Bonds	July 13, 2005	\$ 25,000,000	Variable 0.041%	March 1, 2040	850,000
Series XVII-P, Student Loan Revenue Bonds	October 13, 2005	\$ 41,125,000	4.50% to 4.875%	March 1, 2030	37,195,000
Series XVII-Q, Student Loan Revenue Bonds	July 26, 2006	\$ 50,550,000	4.75% to 5.00%	March 1, 2031	41,065,000
Series 20-A Senior Lien, Student Loan Refunding Revenue Bonds	September 26, 2007	\$ 64,500,000	Variable 0.340%	September 1, 2042	44,175,000
Series 20-B Subordinate Lien, Student Loan Refunding Revenue Bonds	September 26, 2007	\$ 2,000,000	Variable 0.425%	September 1, 2042	2,000,000
Student Loan Notes:					
Straight-A Funding, LLC Deferred Interest Variable Funding Note	June 29, 2010	\$ 1,013,098,231	0.3106%	January 19, 2014	845,981,978
Total Student Loan Fund					\$ 2,005,101,978
Public School Academy Facilities Notes:					
Series 2011B-1	August 22, 2011	\$ 36,430,000	1.44%	August 20, 2012	\$ 36,430,000
Series 2011B-2	August 22, 2011	\$ 11,395,000	2.15%	August 20, 2012	11,395,000
Total Non-Major Funds					\$ 47,825,000

* Interest rates are reported as either ranges for serial and term bonds and notes for outstanding amounts as of September 30, 2011 or the September 30, 2011 effective rates for variable rate bonds and notes. The Student Loan variable rate bonds with multiple issues within a series are reported as September 30, 2011 effective rates weighted based on amounts outstanding.

** Capital appreciation bonds are reported at ultimate maturity value.

- b. Annual debt service requirements for the Authority to service bond and note debt outstanding as of September 30, 2011, including both principal and interest, are as follows (in millions):

Fiscal Years Ended	Tobacco Settlement Fund		Municipal Bond Fund - Local Municipalities Subfund		Municipal Bond Fund - State Revolving Subfund	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 8.6	\$ 60.8	\$ 1,057.2	\$ 80.8	\$ 118.3	\$ 100.5
2013	9.8	60.2	120.0	46.5	124.1	94.6
2014	11.2	59.6	143.8	41.0	128.2	88.2
2015	12.6	58.9	103.5	34.8	132.5	81.6
2016	14.1	58.1	62.1	30.1	132.4	74.8
2017 - 2021	89.4	275.2	262.4	110.9	695.4	269.3
2022 - 2026	228.2	223.8	112.1	62.5	491.9	114.5
2027 - 2031	151.9	159.8	75.5	33.4	239.6	21.7
2032 - 2036	149.0	102.3	59.1	10.3		
2037 - 2041	99.2	66.2	4.0			
2042 - 2046	830.4	32.7				
2047 - 2051	29.0	1.7				
2052 - 2056	1,060.4					
2057 - 2061	4,395.9					
Total unadjusted bonds and interest	\$ 7,089.7	\$ 1,159.3	\$ 1,999.8	\$ 450.3	\$ 2,062.4	\$ 845.2
Unamortized premium			24.7		95.3	
Unamortized discounts	(17.5)		(0.3)			
Deferred amount on refunding	(1.2)		(1.3)		(22.5)	
Unamortized accretion for capital appreciation bonds	(5,983.5)		(14.6)			
Total	<u>\$ 1,087.5</u>	<u>\$ 1,159.3</u>	<u>\$ 2,008.2</u>	<u>\$ 450.3</u>	<u>\$ 2,135.2</u>	<u>\$ 845.2</u>

- c. Changes in long-term debt for the fiscal year ended September 30, 2011 are as follows:

	Beginning Balance	Additions	Reductions
Municipal State Aid and Tax Anticipation Notes	\$ 1,170,405,000	\$ 963,985,000	\$ (1,194,245,000)
Local Government Loan Program Revenue Bonds	619,250,000	158,025,000	(69,895,000)
School Loan Revenue Bond	395,535,000		(43,275,000)
State Revolving Fund	2,172,990,000	25,766,800	(136,391,800)
School Loan Revolving Fund	535,160,000	535,000,000	(535,160,000)
Student Loan Bonds	1,322,210,000		(163,090,000)
Student Loan Notes	990,150,837		(144,168,859)
Public School Academy Facilities Notes	51,550,000	63,295,000	(67,020,000)
Tobacco Settlement Asset-Backed Bonds	7,095,100,000		(5,410,000)
Total bonds and notes payable	<u>\$ 14,352,350,837</u>	<u>\$ 1,746,071,800</u>	<u>\$ (2,358,655,659)</u>

Municipal Bond Fund -
School Loan Revolving
Subfund

		Student Loan Fund		Non-Major Funds		Totals	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
\$	\$ 6.1	\$ 120.8	\$ 14.1	\$ 47.8	\$ 0.5	\$ 1,352.6	\$ 262.7
	6.1	120.8	13.7			374.7	221.1
	6.1	604.5	12.2			887.6	207.1
	6.1		11.7			248.6	193.0
	6.1		11.7			208.6	180.8
25.0	29.4	44.9	52.4			1,117.1	737.1
60.0	13.4	87.8	41.9			980.0	456.2
	4.6	175.9	30.1			642.9	249.7
	4.6	162.0	20.4			370.1	137.7
	4.6	642.5	9.7			745.6	80.6
	4.6	46.2	0.2			876.6	37.5
450.0	3.7					479.0	5.5
						1,060.4	
						4,395.9	
\$ 535.0	\$ 95.8	\$ 2,005.1	\$ 218.0	\$ 47.8	\$ 0.5	\$ 13,739.8	\$ 2,769.0
						120.0	
						(17.8)	
(3.8)		35.2				6.4	
						(5,998.1)	
<u>\$ 531.2</u>	<u>\$ 95.8</u>	<u>\$ 2,040.3</u>	<u>\$ 218.0</u>	<u>\$ 47.8</u>	<u>\$ 0.5</u>	<u>\$ 7,850.2</u>	<u>\$ 2,769.0</u>

Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
\$ 940,145,000	\$ 940,145,000	\$
707,380,000	71,475,000	635,905,000
352,260,000	45,585,000	306,675,000
2,062,365,000	118,250,000	1,944,115,000
535,000,000		535,000,000
1,159,120,000		1,159,120,000
845,981,978	120,755,740	725,226,238
47,825,000	47,825,000	
7,089,690,000	8,610,000	7,081,080,000
<u>\$ 13,739,766,978</u>	<u>\$ 1,352,645,740</u>	<u>\$ 12,387,121,238</u>

d. Refinancing

In June 2010, the Authority borrowed \$1.013 billion, as evidenced by a note with Straight-A Funding, LLC, to refinance certain of its outstanding student loan bonds. The Straight-A Conduit Program was an Asset-Backed Commercial Paper Conduit created by the ECASLA federal legislation and enhanced by a loan put feature with the USDOE and short-term liquidity from the Federal Financing Bank, if necessary. FFELP loans originated during the period October 1, 2003 through June 30, 2009 were eligible collateral for the Straight-A Conduit Program, but the advance rate for the note was 97% of the principal value of the pledged loans.

As of September 30, 2011, the Authority used the proceeds from the Straight-A note to redeem \$117.1 million of student loan bonds in fiscal year 2010-11 and \$835.5 million of student loan bonds in fiscal year 2009-10. The Authority redeemed \$31.0 million of bonds as of December 29, 2011 and anticipates additional redemptions throughout fiscal year 2011-12.

On December 15, 2010, the Authority issued \$535 million of School Loan Revolving Subfund Federally Taxable Bonds. These bonds were used to refund \$535.2 million of outstanding 2008 School Loan Revolving Subfund Bonds in their entirety. The 2010 bonds were issued in four series, 2010A, 2010B, 2010C, and 2010D. The Series 2010A, 2010B, and 2010C bond issues are variable rate bonds and were issued in the weekly mode. The 2010D bonds are fixed rate bonds.

Initial credit facilities have been issued to secure the payment by the trustee of principal and interest on the Series 2010A, 2010B, and 2010C Bonds. The Bank of America letter of credit was issued for the benefit of the 2010A Bonds. The PNC Bank letter of credit was issued for the benefit of the 2010B Bonds. The Bank of Montreal letter of credit was issued for the benefit of the 2010C Bonds. The 2010D Bonds are not secured by any of the initial credit facilities.

e. Defeased Bonds

In prior years, the Authority defeased certain Municipal Bond Fund bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. The amount of bonds outstanding considered defeased was \$7.5 million at September 30, 2011.

Note 10 Unrecorded Limited Obligation Debt

The Authority has issued limited obligation bonds that are not recorded as liabilities in these statements because the borrowings are, in substance, debts of other entities. The Authority has no obligation for this debt. Typically, these borrowings are repayable only from the repayment of loans, undispersed proceeds, and related interest earnings.

The Authority issues limited obligation bonds to finance loans to private nonprofit institutions of higher education, qualified public or private educational facilities, and healthcare providers for capital improvements and are accounted for in the Higher Education Facilities Fund, Public School Academy Facilities Fund, Healthcare Finance Fund, and Michigan Strategic Fund.

The Authority has defeased, in substance, certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Economic gains and accounting gains and losses upon in-substance defeasance inure to the benefit of the facility for which the bonds were issued and, accordingly, are not reflected in the Authority's financial statements.

The total outstanding limited obligation bonds and defeased and undefeased portions as of September 30, 2011 were as follows:

	Higher Education Facilities Fund	Public School Academy Facilities Fund	Healthcare Finance Fund	Michigan Strategic Fund	Total
Defeased	\$ 28,510,000	\$	\$ 477,950,000	\$	\$ 506,460,000
Undefeased	618,158,099	213,820,000	5,264,165,434	101,765,000	6,197,908,533
Total Outstanding	<u>\$646,668,099</u>	<u>\$213,820,000</u>	<u>\$5,742,115,434</u>	<u>\$101,765,000</u>	<u>\$6,704,368,533</u>

Note 11 Employee Benefits

- a. Plan Descriptions - The Authority participates in the State of Michigan's defined benefit and defined contribution pension plans that cover most State employees, as well as related component units such as the Authority. The defined benefit and defined contribution pension plans are part of the State Employees' Retirement System administered by the Office of Retirement Services, Department of Technology, Management, and Budget. Participants in each plan are eligible for retirement, healthcare, disability, and death benefits upon meeting certain vesting requirements. The State Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report is available on the State's website at <<http://www.michigan.gov/ors>>. The financial report for the defined contribution plan may be obtained by writing to the Office of Retirement Services, Department of Technology, Management, and Budget, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-5103.
- b. Funding Policy - For the defined benefit plan, the Authority was required to contribute at an actuarially determined rate of 37.38% of payroll for pension and other postemployment benefits for fiscal year 2010-11. Defined benefit plan members are not required to make contributions. For the defined contribution plan, the Authority was required to contribute 4.0% of payroll with an additional match of up to 3.0% for fiscal year 2010-11. The Authority transferred \$1.1 and \$0.1 million to the State for

its employer contribution for the defined benefit plan and defined contribution plan, respectively, in fiscal year 2010-11. The contribution requirements of plan members and the Authority are established and may be amended by the State Legislature. The State Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for the plans.

- c. Postemployment Benefits - The Authority participates in the State of Michigan's postemployment benefits. The cost of retiree healthcare benefits is an allocation calculated by the State of Michigan and funded on a pay-as-you-go basis. The State will pay 90% of healthcare benefits for employees hired on or before March 30, 1997 who participate in either the defined benefit plan or the defined contribution plan and meet certain vesting and other requirements. The State will pay up to 90% of healthcare benefits for employees who were hired after March 30, 1997 who participate in the defined contribution plan and meet certain vesting and other requirements.

Note 12 Revenue From Federal Government

- a. Business-Type Activities and Proprietary Funds

- (1) Student Loan Fund

The USDOE pays the Student Loan Fund an interest subsidy on the subsidized Stafford Loans for the period during which the borrowers are enrolled at an institution of higher education and during a six- to nine-month period after the borrowers have graduated or left school. The interest subsidy for fiscal year 2010-11 totaled \$10.5 million. Additionally, federal legislation provides for a special allowance that is principally an incentive payment made in order that money market conditions and interest rates will not impede the issuance of student loans. The USDOE pays the special allowance, which adjusts the Authority's yield on student loans to a rate related to the average of a 91-day U.S. Treasury bill yield during the quarter or, for loans disbursed on or after January 1, 2000, a rate related to the average three-month commercial paper yield. The positive special allowance

received for fiscal year 2010-11 was \$0.8 million. For loans first disbursed on or after October 1, 2007, the College Cost Reduction and Access Act reduced the special allowance factors and the Deficit Reduction Act of 2005 required that if the resulting special allowance calculation was negative, the negative special allowance must be paid to the USDOE. The negative special allowance paid for fiscal year 2010-11 totaled \$28.9 million.

(2) Non-Major Fund - Public School Academy Facilities Fund

In fiscal year 2006-07, the Public School Academy Facilities Fund received federal funds for the federal Credit Enhancement for Charter School Facilities grant. The entire grant has been drawn, and at September 30, 2011, all of the grant funds had been committed.

(3) Non-Major Fund - MGA - Operating Fund

The MGA - Operating Fund receives federal funds for fees related to defaulted student loans. The account maintenance fee is 0.06% of the original principal amount of outstanding loans for administering the accounts. Also, the MGA - Operating Fund receives federal funds for its share of retention on loan recoveries and loans rehabilitated. For loan recoveries, the retention rate is 16.0%, and for loans rehabilitated, MGA receives 18.5% of principal and 100% of interest and collection costs.

b. Fiduciary Fund - MGA Federal Fund

The MGA Federal Fund includes federal revenue to reimburse the Authority for defaulted loan claims acquired from financial institutions. Defaulted loans consist of loans in which the student defaulted and the unpaid loan has been acquired from the financial institution by MGA and is recorded as a deduction within loan claims in the fiduciary fund. The federal government reimburses MGA between 75% and 100% of defaulted loans based on when the loan was guaranteed and MGA's trigger default rate. The federal revenue is reported as an addition in the fiduciary fund. The federal government has defined the trigger default rate to be the defaulted loan claims presented to the federal government during the federal fiscal year ended September 30, divided by loans in

repayment at the beginning of the federal fiscal year, plus certain other adjustments. The trigger default rate for the fiscal year ended September 30, 2011 was 2.28%.

Note 13 Related Party Transactions

The Authority is charged by various State agencies and departments for certain collection activities and accounting, auditing, legal, and cash management services. These costs were \$1.2 million for the fiscal year ended September 30, 2011 and were allocated to the various funds of the Authority.

The Municipal Bond Fund - State Revolving Subfund is jointly administered by the Department of Treasury and DEQ. The Subfund paid \$2.4 million in administrative costs to DEQ during the fiscal year ended September 30, 2011.

Note 14 Contingencies

a. Governmental Activities and Tobacco Settlement Fund - MSA and Purchase Agreement

In November 1998, an MSA was entered into by 46 states, 6 other U.S. jurisdictions, and 4 major tobacco companies. The MSA sets forth the schedule and calculations of payments to be made by the tobacco companies to the states. These payments are subject to various adjustments and offsets, some of which could be material.

In calendar years 2006 and 2007, the Michigan Tobacco Settlement Finance Authority and the State entered into purchase agreements to purchase the right, title, and interest in and to 13.34% and 10.77%, respectively, of all TSR that is received by the State that is required under the terms of the MSA and that is payable to the State beginning in calendar years 2008 and 2010, respectively.

Future tobacco settlement collections are contingent upon future tobacco product sales and are subject to various adjustments as outlined in the MSA. Because of the uncertainty of the factors affecting tobacco product sales and the various adjustments, the Authority estimates the amount of tobacco settlement payment that will be received in April of each year based on tobacco product sales from the prior calendar year.

As of September 30, 2011, the State of Michigan was in litigation over the application and interpretation of the market share adjustment and diligent enforcement provisions of the MSA. At best, the State of Michigan will avoid any reduction of its tobacco payments. At worst, an entire year's payment can be eliminated through application of the market share adjustment. The net effect of these adjustments on future payments is unclear; therefore, only receivables and deferred revenues that can be reasonably estimated have been recorded for future payments.

b. Fiduciary Fund - MGA Federal Fund

MGA is contingently liable for loans made by financial institutions that qualify for guaranty. The trigger default rate for loans guaranteed by the Authority was below 5% for fiscal year 2010-11. As a result, the federal government's reinsurance rate for defaults for fiscal year 2010-11 was 100% for loans made prior to October 1, 1993, 98% for loans made from October 1, 1993 through September 30, 1998, and 95% for loans made on or after October 1, 1998. In the event of future adverse default experience, MGA could be liable for up to 25% of defaulted loans. While management believes that MGA's expected maximum contingent liability is less than 25% of outstanding guaranteed loans, the maximum contingent liability at 25% was \$789.8 million as of September 30, 2011. Management does not expect that all guaranteed loans could default in one year.

MGA has entered into commitment agreements with all lenders that provide, among other things, that MGA will maintain cash and marketable securities at an amount sufficient to guarantee loans in accordance with the Higher Education Act of 1965, as amended. MGA was in compliance with this requirement as of September 30, 2011.

Note 15 Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The State of Michigan is self-insured and provides coverage to the Authority for these potential losses. Additional information on risk management can be found in the footnotes of the *State of Michigan Comprehensive Annual Financial Report*.

Note 16 Subsequent Events

a. Municipal Bond Fund

The Authority issued bonds totaling \$238.1 million and \$15.0 million on October 13, 2011 and on October 28, 2011, respectively. Both bond issues were within the Municipal Bond Fund - Local Municipalities Subfund.

On November 3, 2011, the Authority issued \$225.9 million State Revolving Fund Clean Water Bonds and \$56.9 million State Revolving Fund Drinking Water Bonds. The bond issues were within the Municipal Bond Fund for the purpose of (i) current refunding of the Authority's outstanding Clean Water Revolving Fund Revenue Bonds, Series 2001 and Drinking Water Revolving Fund Revenue Bonds, Series 2001, and (ii) advance refunding of the Authority's outstanding Clean Water Revolving Fund Revenue Bonds, Series 2002 and Drinking Water Revolving Fund Revenue Bonds, Series 2002.

b. Unemployment Obligation Bonds

On December 28, 2011, the Authority issued Unemployment Obligation Assessment Variable Rate Demand Revenue Bonds totaling \$3.3 billion, pursuant to Act 267, P.A. 2011. The bonds were issued for the purpose of: (i) Reducing or avoiding the need for the State to borrow or obtain a federal advance to the State's Unemployment Trust Account within the Federal Unemployment Trust Fund; (ii) Repaying principal and interest on unpaid advances to the State's Unemployment Trust Account within the Federal Unemployment Trust Fund, or reimbursing amounts advanced by the State to pay interest on such unpaid advances; (iii) Funding the minimum amount necessary to pay unemployment benefits without advances or loans from the federal government before January 1, 2014; (iv) Paying unemployment benefits before January 1, 2014; and, (v) Paying or providing for financing costs as defined in Act 267, P.A. 2011.

c. Limited Obligation Bonds

The Authority issued limited obligation bonds totaling \$2.4 million and \$325.2 million on October 6, 2011 and on October 20, 2011, respectively. Both bond issues were within the Healthcare Finance Fund.

The Authority issued limited obligation revenue bonds totaling \$5.0 million and limited obligation revenue and refunding bonds totaling \$11.4 million on November 22, 2011 and on December 13, 2011, respectively. Both bond issues were within the Public School Academy Facilities Fund.

REQUIRED SUPPLEMENTARY INFORMATION

MICHIGAN FINANCE AUTHORITY
Tobacco Settlement General Fund
Budgetary Comparison Schedule
For the Fiscal Year Ended September 30, 2011

<u>Statutory/Budgetary Basis</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Beginning budgetary fund balance	\$ 210,608	\$ 210,608	\$ 0
Resources (inflows)			
Tobacco settlement revenue	\$ 341,128	\$ 341,128	\$ 0
Miscellaneous	17	17	0
Total resources (inflows)	\$ 341,145	\$ 341,145	\$ 0
Amount available for uses (outflows)	\$ 551,753	\$ 551,753	\$ 0
Uses (outflows)	\$ 190,161	\$ 190,161	\$ 0
Total uses (outflows)	\$ 190,161	\$ 190,161	\$ 0
Ending budgetary fund balance	\$ 361,592	\$ 361,592	\$ 0

See accompanying note to required supplementary information.

MICHIGAN FINANCE AUTHORITY
Tobacco Settlement General Fund
Budgetary Comparison Schedule
Budget-to-GAAP Reconciliation
For the Fiscal Year Ended September 30, 2011

Sources/inflows of resources

Actual amount (budgetary basis) available for uses (outflows) from the budgetary comparison schedule	\$ 551,753
Differences - Budget to GAAP:	
Budgetary fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	<u>210,608</u>
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance	<u><u>\$ 341,145</u></u>

Uses/outflows of resources

Actual amount (budgetary basis) total uses (outflows) from the budgetary comparison schedule	<u>\$ 190,161</u>
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance	<u><u>\$ 190,161</u></u>

Note to Required Supplementary Information

Note 1 Statutory/Budgetary Presentation

The Tobacco Settlement Fund enabling legislation, Act 226, P.A. 2005, provides for the Authority to engage the services of financial advisors and experts, legal counsel, placement agents, underwriters, appraisers and other advisors, consultants, and fiduciaries as may be necessary to effectuate the purposes of the act. The Michigan Finance Authority Tobacco Settlement bond official statements establish annual operating cap limits for the administrative expenditures.

The budgetary comparison schedule presents the final budget for fiscal year 2010-11, as well as the actual revenues and other sources (inflows), expenditures (outflows), and fund balance stated on the budgetary basis. The Authority does not estimate revenue for budget purposes, and the Authority is allowed to spend the collected revenue without restrictions. Therefore, the actual revenue reflects the budgeted revenue. There were no changes from the original budget to the final budget.

SUPPLEMENTAL FINANCIAL STATEMENTS

MICHIGAN FINANCE AUTHORITY
Non-Major Funds - Combining Statement of Net Assets
As of September 30, 2011

	Michigan Guaranty Agency - Operating Fund	Michigan Finance Authority - Operating Fund	Public School Academy Facilities Fund	Totals
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 14,357,041	\$ 379,683	\$ 11,975,703	\$ 26,712,427
Receivable from federal government	488,979			488,979
Receivable from primary government	253,062			253,062
Receivable from other funds	1,542,833	320,581		1,863,414
Interest receivable	361,245	4,815	100,594	466,654
Investments	3,000,000	14,799,215	286,550	18,085,765
Notes receivable			37,457,805	37,457,805
Other current assets		727,809		727,809
Total current assets	<u>\$ 20,003,160</u>	<u>\$ 16,232,104</u>	<u>\$ 49,820,652</u>	<u>\$ 86,055,916</u>
Noncurrent assets:				
Investments	\$ 3,000,000	\$	\$	\$ 3,000,000
Deferred charges/financing costs, net			354,623	354,623
Total noncurrent assets	<u>\$ 3,000,000</u>	<u>\$ 0</u>	<u>\$ 354,623</u>	<u>\$ 3,354,623</u>
Total assets	<u>\$ 23,003,160</u>	<u>\$ 16,232,104</u>	<u>\$ 50,175,275</u>	<u>\$ 89,410,539</u>
LIABILITIES				
Current liabilities:				
Accounts payable and other liabilities	\$	\$	\$ 283,973	\$ 283,973
Bonds and notes payable, net			47,825,000	47,825,000
Interest payable			54,503	54,503
Compensated absences	6,371	50,964		57,335
Total current liabilities	<u>\$ 6,371</u>	<u>\$ 50,964</u>	<u>\$ 48,163,476</u>	<u>\$ 48,220,811</u>
Noncurrent liabilities:				
Compensated absences	\$ 319,082	\$ 230,798	\$	\$ 549,880
Total noncurrent liabilities	<u>\$ 319,082</u>	<u>\$ 230,798</u>	<u>\$ 0</u>	<u>\$ 549,880</u>
Total liabilities	<u>\$ 325,453</u>	<u>\$ 281,762</u>	<u>\$ 48,163,476</u>	<u>\$ 48,770,691</u>
NET ASSETS				
Unrestricted	\$	\$ 15,950,342	\$ (9,963,904)	\$ 5,986,438
Restricted	<u>22,677,707</u>		<u>11,975,703</u>	<u>34,653,410</u>
Total net assets	<u>\$ 22,677,707</u>	<u>\$ 15,950,342</u>	<u>\$ 2,011,799</u>	<u>\$ 40,639,848</u>
Total liabilities and net assets	<u>\$ 23,003,160</u>	<u>\$ 16,232,104</u>	<u>\$ 50,175,275</u>	<u>\$ 89,410,539</u>

MICHIGAN FINANCE AUTHORITY

Non-Major Funds - Combining Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended September 30, 2011

	Michigan Guaranty Agency - Operating Fund	Michigan Finance Authority - Operating Fund	Public School Academy Facilities Fund	Totals
OPERATING REVENUES				
Federal revenue:				
Loan recoveries	\$ 3,808,190	\$	\$	\$ 3,808,190
Loans repurchased and rehabilitated	11,573,815			11,573,815
Account maintenance	2,014,427			2,014,427
Loan processing and issuance	(50,613)			(50,613)
Credit enhancement for school facilities			104,175	104,175
Interest revenue			1,220,154	1,220,154
Investment income		23,556	5,399	28,955
Fees:				
Default aversion	1,795,734			1,795,734
Authority		1,886,336		1,886,336
Miscellaneous	2,963,240		8,752	2,971,992
Total operating revenues	<u>\$ 22,104,793</u>	<u>\$ 1,909,892</u>	<u>\$ 1,338,480</u>	<u>\$ 25,353,165</u>
OPERATING EXPENSES				
Interest and principal on bonds and notes	\$	\$	\$ 671,675	\$ 671,675
Amortization on deferred charges/financing costs			529,765	529,765
Grants to public school academies			295,057	295,057
Other administrative expense	15,785,033	1,451,804	2,215,981	19,452,818
Total operating expenses	<u>\$ 15,785,033</u>	<u>\$ 1,451,804</u>	<u>\$ 3,712,478</u>	<u>\$ 20,949,314</u>
Operating income (loss)	<u>\$ 6,319,760</u>	<u>\$ 458,088</u>	<u>\$ (2,373,998)</u>	<u>\$ 4,403,851</u>
NONOPERATING REVENUES (EXPENSES)				
Other	\$ 217,527	\$	\$	\$ 217,527
Total nonoperating revenues (expenses)	<u>\$ 217,527</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 217,527</u>
Income (loss) before transfers	<u>\$ 6,537,287</u>	<u>\$ 458,088</u>	<u>\$ (2,373,998)</u>	<u>\$ 4,621,378</u>
TRANSFERS				
Transfers from other funds	\$	\$ 323,594	\$	\$ 323,594
Transfers to other funds		(9,000)	(30,127)	(39,127)
Total transfers	<u>\$ 0</u>	<u>\$ 314,594</u>	<u>\$ (30,127)</u>	<u>\$ 284,466</u>
Change in net assets	\$ 6,537,287	\$ 772,682	\$ (2,404,125)	\$ 4,905,844
Net assets - Beginning of fiscal year - Restated	16,140,421	15,177,660	4,415,924	35,734,005
Net assets - End of fiscal year	<u>\$ 22,677,707</u>	<u>\$ 15,950,342</u>	<u>\$ 2,011,799</u>	<u>\$ 40,639,848</u>

MICHIGAN FINANCE AUTHORITY
Non-Major Fund - Combining Statement of Cash Flows
For the Fiscal Year Ended September 30, 2011

	Michigan Guaranty Agency - Operating Fund	Michigan Finance Authority - Operating Fund	Public School Academy Facilities Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Bonds, notes, and loans receivable made	\$	\$	\$ (61,922,487)	\$ (61,922,487)
Principal received on bonds, notes, and loans			66,435,724	66,435,724
Interest received on bonds, notes, and loans			1,354,524	1,354,524
Cash payments to employees and suppliers for goods and services	(16,522,679)	(1,873,714)	(2,215,981)	(20,612,374)
Cash payments to grantees			(295,057)	(295,057)
Other operating revenues	22,921,121	2,130,211		25,051,332
Net cash provided by (used in) operating activities	\$ 6,398,442	\$ 256,497	\$ 3,356,722	\$ 10,011,661
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from sale of bonds and notes, net	\$	\$	\$ 63,295,000	\$ 63,295,000
Payment of bond issue costs			(524,735)	(524,735)
Principal paid on bonds and notes			(67,020,000)	(67,020,000)
Interest paid on bonds and notes			(760,335)	(760,335)
Other	(1,777)	284,594	250,345	533,162
Net cash provided by (used in) noncapital financing activities	\$ (1,777)	\$ 284,594	\$ (4,759,725)	\$ (4,476,908)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (purchases of) proceeds from sale and maturities of investment securities	\$ (6,000,000)	\$ (1,892,071)	\$ (273,889)	\$ (8,165,960)
Interest and dividends on investments	278,877	3,095	5,399	287,371
Net cash provided by (used in) investing activities	\$ (5,721,123)	\$ (1,888,976)	\$ (268,490)	\$ (7,878,588)
Net increase (decrease) in cash	\$ 675,543	\$ (1,347,885)	\$ (1,671,493)	\$ (2,343,835)
Cash and cash equivalents - Beginning of fiscal year	13,681,498	1,727,568	13,647,196	29,056,261
Cash and cash equivalents - End of fiscal year	\$ 14,357,041	\$ 379,683	\$ 11,975,703	\$ 26,712,427
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ 6,319,760	\$ 458,088	\$ (2,373,998)	\$ 4,403,851
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Investment income		(23,556)	(5,399)	(28,955)
Other income			(8,752)	(8,752)
Interest expense			671,675	671,675
Amortization of deferred charges			529,765	529,765
Changes in assets and liabilities:				
(Increase) decrease in other receivables	566,458	(76,707)	134,370	624,121
Increase (decrease) in other payables	(487,776)	(101,329)	(104,175)	(693,280)
(Increase) decrease in bonds, notes, and loans receivable			4,513,237	4,513,237
Net cash provided by (used in) operating activities	\$ 6,398,442	\$ 256,497	\$ 3,356,722	\$ 10,011,661

SUPPLEMENTAL FINANCIAL SCHEDULES

MICHIGAN FINANCE AUTHORITY
Municipal Bond Fund - Combining Supplemental Schedule of Net Assets
As of September 30, 2011

	Local Municipalities Subfund	State Revolving Subfund	
		Clean Water Program	Drinking Water Program
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 4,428	\$ 4,781	\$ 11,116
Receivable from federal government		105,386	45,311
Receivable from primary government		1,910,000	
Interest receivable	40,762,016	6,283,624	983,744
Investments	2,365,989	669,547,029	236,270,779
Notes receivable	944,148,405		
Loans receivable, net	14,870,000	149,017,734	26,864,083
Bonds receivable	100,466,182		
Other current assets			99,200
Total current assets	\$ 1,102,617,020	\$ 826,868,554	\$ 264,274,233
Noncurrent assets:			
Investments	\$ 21,366,615	\$ 727,850,724	\$ 113,101,914
Loans receivable, net	179,645,014	1,815,654,506	382,925,763
Bonds receivable	688,754,444		
Receivable from primary government		3,050,000	
Interest receivable	33,307,409		
Deferred charges/financing costs, net	17,156,615	10,514,373	1,292,931
Total noncurrent assets	\$ 940,230,096	\$ 2,557,069,603	\$ 497,320,608
Total assets	\$ 2,042,847,116	\$ 3,383,938,157	\$ 761,594,841
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	\$ 18,481	\$ 208,299	\$ 44,424
Bonds and notes payable, net	1,066,973,187	102,110,000	16,140,000
Interest payable	30,705,791	44,752,676	6,873,984
Arbitrage payable		5,316,824	
Total current liabilities	\$ 1,097,697,460	\$ 152,387,799	\$ 23,058,409
Noncurrent liabilities:			
Bonds and notes payable, net	\$ 941,221,273	\$ 1,758,074,481	\$ 258,879,693
Arbitrage payable		4,503,154	326,224
Total noncurrent liabilities	\$ 941,221,273	\$ 1,762,577,635	\$ 259,205,916
Total liabilities	\$ 2,038,918,733	\$ 1,914,965,434	\$ 282,264,325
NET ASSETS			
Unrestricted	\$ 3,928,383	\$	\$
Restricted:			
Water pollution control and drinking water projects		1,468,972,723	479,330,516
Strategic Water Quality Initiatives Fund			
School Loan Revolving Fund			
Total net assets	\$ 3,928,383	\$ 1,468,972,723	\$ 479,330,516
Total liabilities and net assets	\$ 2,042,847,116	\$ 3,383,938,157	\$ 761,594,841

Strategic Water Quality Initiatives Subfund	School Loan Revolving Subfund	Totals
\$	\$ 124,809,045	\$ 124,829,369
		150,697
		1,910,000
	1,534,098	49,563,482
13,991,753	24,555,822	946,731,372
		944,148,405
630,000		191,381,818
		100,466,182
		99,200
<u>\$ 14,621,753</u>	<u>\$ 150,898,965</u>	<u>\$ 2,359,280,525</u>
\$	\$ 67,234,120	\$ 929,553,374
10,663,961		2,388,889,243
		688,754,444
	853,739,442	856,789,442
		33,307,409
	2,615,205	31,579,124
<u>\$ 10,663,961</u>	<u>\$ 923,588,767</u>	<u>\$ 4,928,873,036</u>
<u>\$ 25,285,714</u>	<u>\$ 1,074,487,732</u>	<u>\$ 7,288,153,561</u>
\$ 70,916	\$ 549,321	\$ 891,441
		1,185,223,187
	511,410	82,843,862
		5,316,824
<u>\$ 70,916</u>	<u>\$ 1,060,731</u>	<u>\$ 1,274,275,314</u>
\$	\$ 531,179,855	\$ 3,489,355,301
		4,829,378
<u>\$ 0</u>	<u>\$ 531,179,855</u>	<u>\$ 3,494,184,679</u>
<u>\$ 70,916</u>	<u>\$ 532,240,586</u>	<u>\$ 4,768,459,993</u>
\$	\$	\$ 3,928,383
		1,948,303,239
25,214,798		25,214,798
	542,247,146	542,247,146
<u>\$ 25,214,798</u>	<u>\$ 542,247,146</u>	<u>\$ 2,519,693,567</u>
<u>\$ 25,285,714</u>	<u>\$ 1,074,487,732</u>	<u>\$ 7,288,153,561</u>

MICHIGAN FINANCE AUTHORITY
Municipal Bond Fund - Combining Supplemental Schedule of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended September 30, 2011

	Local Municipalities Subfund	State Revolving Subfund	
		Clean Water Program	Drinking Water Program
OPERATING REVENUES			
Federal revenue	\$	\$ 356,972	\$ 157,235
Interest revenue	88,115,397	43,326,372	9,665,930
Investment income	960,924	37,988,089	5,834,478
Miscellaneous	21,748		33,286
Total operating revenues	<u>\$ 89,098,069</u>	<u>\$ 81,671,433</u>	<u>\$ 15,690,929</u>
OPERATING EXPENSES			
Arbitrage expense	\$	\$ (1,104,486)	\$ (380,121)
Interest expense	77,020,346	81,877,671	12,803,516
Amortization on deferred charges/financing costs	12,192,473	1,343,865	184,521
Other administrative expense		1,602,526	166,016
Total operating expenses	<u>\$ 89,212,818</u>	<u>\$ 83,719,575</u>	<u>\$ 12,773,932</u>
Operating income (loss)	<u>\$ (114,750)</u>	<u>\$ (2,048,142)</u>	<u>\$ 2,916,997</u>
NONOPERATING REVENUES (EXPENSES)			
Operating subsidies	\$	\$ 29,935,449	\$ 44,270,096
American Recovery and Reinvestment Act principal forgiveness		(22,719,798)	(5,524,516)
Other		(1,193,218)	(2,528,585)
Total nonoperating revenues (expenses)	<u>\$ 0</u>	<u>\$ 6,022,433</u>	<u>\$ 36,216,995</u>
Income (loss) before transfers	<u>\$ (114,750)</u>	<u>\$ 3,974,291</u>	<u>\$ 39,133,992</u>
TRANSFERS			
Transfers from other funds	\$ 9,000	\$	\$
Transfers to other funds	(293,466)		
Total transfers	<u>\$ (284,466)</u>	<u>\$ 0</u>	<u>\$ 0</u>
Change in net assets	\$ (399,216)	\$ 3,974,291	\$ 39,133,992
Net assets - Beginning of fiscal year - Restated	<u>4,327,599</u>	<u>1,464,998,432</u>	<u>440,196,524</u>
Net assets - End of fiscal year	<u><u>\$ 3,928,383</u></u>	<u><u>\$ 1,468,972,723</u></u>	<u><u>\$ 479,330,516</u></u>

Strategic Water Quality Initiatives Subfund	School Loan Revolving Subfund	Totals
\$	\$	\$
224,099	30,754,488	172,086,287
823	15,910,609	60,694,923
		55,033
<u>\$ 224,923</u>	<u>\$ 46,665,096</u>	<u>\$ 233,350,450</u>
\$	\$	\$
	10,135,368	(1,484,607)
	133,473	181,836,901
74,235	4,496,979	13,854,331
<u>\$ 74,235</u>	<u>\$ 14,765,819</u>	<u>\$ 6,339,755</u>
<u>\$ 150,688</u>	<u>\$ 31,899,277</u>	<u>\$ 200,546,380</u>
\$	\$	\$
10,111,723	192,687,791	(28,244,314)
.		(3,721,803)
<u>\$ 10,111,723</u>	<u>\$ 192,687,791</u>	<u>\$ 245,038,942</u>
<u>\$ 10,262,411</u>	<u>\$ 224,587,068</u>	<u>\$ 277,843,012</u>
\$	\$	\$
		9,000
		(293,466)
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (284,466)</u>
\$	\$	\$
10,262,411	224,587,068	277,558,546
14,952,387	317,660,079	2,242,135,021
<u>\$ 25,214,798</u>	<u>\$ 542,247,146</u>	<u>\$ 2,519,693,567</u>

MICHIGAN FINANCE AUTHORITY
Municipal Bond Fund - Combining Supplemental Schedule of Cash Flows
For the Fiscal Year Ended September 30, 2011

	Local Municipalities Subfund	State Revolving Subfund	
		Clean Water Program	Drinking Water Program
CASH FLOWS FROM OPERATING ACTIVITIES			
Bonds, notes, and loans receivable made	\$ (1,122,464,344)	\$ (198,264,474)	\$ (43,774,973)
Principal received on bonds, notes, and loans	1,313,363,124	146,007,288	26,623,263
Interest received on bonds, notes, and loans	78,773,610	43,326,372	9,665,930
Cash payments to employees and suppliers for goods and services		(2,503,936)	(170,671)
Other operating revenues		2,208,976	1,133,202
Net cash provided by (used in) operating activities	\$ 269,672,391	\$ (9,225,773)	\$ (6,523,248)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Proceeds from sale of bonds and notes, net	\$ 1,124,860,762	\$ 17,521,600	\$ 8,245,200
Payment of bond issue costs	(2,483,231)	(12,500)	
Principal paid on bonds and notes	(1,301,818,623)	(112,491,600)	(23,900,200)
Interest paid on bonds and notes	(90,406,945)	(92,115,575)	(14,117,574)
Operating subsidies		3,361,770	32,244,266
American Recovery and Reinvestment Act principal forgiveness		26,573,679	12,025,830
Grant expenditures		(23,913,016)	(8,053,101)
Other	(284,466)		
Net cash provided by (used in) noncapital financing activities	\$ (270,132,504)	\$ (181,075,642)	\$ 6,444,421
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (purchases of) proceeds from sale and maturities of investment securities	\$ (520,136)	\$ 126,836,083	\$ (8,590,240)
Interest and dividends on investments	984,677	39,563,218	6,893,530
Net cash provided by (used in) investing activities	\$ 464,541	\$ 166,399,300	\$ (1,696,709)
Net increase (decrease) in cash	\$ 4,428	\$ (23,902,114)	\$ (1,775,536)
Cash and cash equivalents - Beginning of fiscal year		23,906,895	1,786,652
Cash and cash equivalents - End of fiscal year	\$ 4,428	\$ 4,781	\$ 11,116
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES			
Operating income (loss)	\$ (114,750)	\$ (2,048,142)	\$ 2,916,997
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Investment income	(960,924)	(37,988,089)	(5,834,478)
Other income	(21,748)		
Interest expense	77,020,346	81,877,671	12,803,516
Amortization of deferred charges	12,192,473	1,343,865	184,521
Changes in assets and liabilities:			
(Increase) decrease in other receivables	(9,341,788)	1,769,614	542,395
Increase (decrease) in other payables		(48,506)	15,510
(Increase) decrease in bonds, notes, and loans receivable	190,898,781	(54,132,186)	(17,151,710)
Net cash provided by (used in) operating activities	\$ 269,672,391	\$ (9,225,773)	\$ (6,523,248)

Strategic Water Quality Initiatives Subfund	School Loan Revolving Subfund	Totals
\$ (4,178,083)	\$ (177,207,783)	\$ (1,545,889,657)
465,000	10,137,285	1,496,595,961
224,099	5,130,403	137,120,414
(26,760)	(3,958,158)	(6,659,525)
		3,342,178
<u>\$ (3,515,743)</u>	<u>\$ (165,898,253)</u>	<u>\$ 84,509,372</u>
\$	\$ 533,408,364	\$ 1,684,035,926
	(1,117,431)	(3,613,162)
	(535,160,000)	(1,973,370,423)
	(11,240,682)	(207,880,776)
10,000,000	192,687,791	238,293,827
		38,599,509
111,723		(31,854,394)
		(284,466)
<u>\$ 10,111,723</u>	<u>\$ 178,578,042</u>	<u>\$ (256,073,959)</u>
\$ (6,596,988)	\$ 14,762,509	\$ 125,891,228
1,008	3,907,985	51,350,419
<u>\$ (6,595,980)</u>	<u>\$ 18,670,494</u>	<u>\$ 177,241,646</u>
\$	\$ 31,350,283	\$ 5,677,060
	93,458,762	119,152,309
<u>\$ 0</u>	<u>\$ 124,809,045</u>	<u>\$ 124,829,369</u>
\$ 150,688	\$ 31,899,277	\$ 32,804,070
(823)	(15,910,609)	(60,694,923)
	10,135,368	181,836,901
	133,473	13,854,331
	(192,694,583)	(199,724,361)
47,475	538,821	553,300
(3,713,083)		115,901,803
<u>\$ (3,515,743)</u>	<u>\$ (165,898,253)</u>	<u>\$ 84,509,372</u>

MICHIGAN FINANCE AUTHORITY
Student Loan Fund - Combining Supplemental Schedule of Net Assets
As of September 30, 2011

	Operating Subfund	Bond Subfund	Totals
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 22,599,598	\$ 522,378,414	\$ 544,978,012
Receivable from federal government	1,246	2,383,857	2,385,103
Receivable from primary government	154,053		154,053
Interfund receivable	314,909		314,909
Interest receivable	158,193	37,966,084	38,124,277
Investments	5,877,024		5,877,024
Loans receivable, net	1,275,646	186,390,342	187,665,988
Other current assets		889,721	889,721
Total current assets	<u>\$ 30,380,669</u>	<u>\$ 750,008,418</u>	<u>\$ 780,389,087</u>
Noncurrent assets:			
Investments	\$	\$ 500,000	\$ 500,000
Loans receivable, net	9,580,913	1,399,910,445	1,409,491,358
Deferred charges/financing costs, net		10,083,847	10,083,847
Total noncurrent assets	<u>\$ 9,580,913</u>	<u>\$ 1,410,494,292</u>	<u>\$ 1,420,075,205</u>
Total assets	<u>\$ 39,961,582</u>	<u>\$ 2,160,502,710</u>	<u>\$ 2,200,464,292</u>
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	\$ 14,026	\$ 8,912,777	\$ 8,926,803
Bonds and notes payable, net		120,755,740	120,755,740
Interfund payable		314,909	314,909
Interest payable		1,050,232	1,050,232
Arbitrage payable		160,412	160,412
Compensated absences	11,612		11,612
Total current liabilities	<u>\$ 25,638</u>	<u>\$ 131,194,070</u>	<u>\$ 131,219,708</u>
Noncurrent liabilities:			
Bonds and notes payable, net	\$	\$ 1,919,509,643	\$ 1,919,509,643
Arbitrage payable		20,708,365	20,708,365
Compensated absences	188,041		188,041
Total noncurrent liabilities	<u>\$ 188,041</u>	<u>\$ 1,940,218,008</u>	<u>\$ 1,940,406,049</u>
Total liabilities	<u>\$ 213,679</u>	<u>\$ 2,071,412,078</u>	<u>\$ 2,071,625,757</u>
NET ASSETS			
Unrestricted	\$ 30,512,922	\$ 89,090,632	\$ 119,603,554
Restricted	<u>9,234,981</u>		<u>9,234,981</u>
Total net assets	<u>\$ 39,747,903</u>	<u>\$ 89,090,632</u>	<u>\$ 128,838,535</u>
Total liabilities and net assets	<u>\$ 39,961,582</u>	<u>\$ 2,160,502,710</u>	<u>\$ 2,200,464,292</u>

MICHIGAN FINANCE AUTHORITY

Student Loan Fund - Combining Supplemental Schedule of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended September 30, 2011

	Operating Subfund	Bond Subfund	Totals
OPERATING REVENUES			
Federal revenue, net of special allowance	\$ 5,066	\$ (17,683,669)	\$ (17,678,603)
Interest revenue	311,987	67,392,913	67,704,900
Investment income	21,170	42,400	63,570
Miscellaneous	38,786	6,910,077	6,948,863
Total operating revenues	<u>\$ 377,009</u>	<u>\$ 56,661,721</u>	<u>\$ 57,038,730</u>
OPERATING EXPENSES			
Arbitrage expense	\$	\$ (460,276)	\$ (460,276)
Interest expense		1,221,555	1,221,555
Amortization on deferred charges/financing costs		1,144,448	1,144,448
Write-off of prior year loans receivable	245,197	10,534,361	10,779,558
Other administrative expense	(20,442)	17,095,506	17,075,064
Total operating expenses	<u>\$ 224,755</u>	<u>\$ 29,535,594</u>	<u>\$ 29,760,349</u>
Operating income (loss)	<u>\$ 152,254</u>	<u>\$ 27,126,127</u>	<u>\$ 27,278,381</u>
Change in net assets	\$ 152,254	\$ 27,126,127	\$ 27,278,381
Net assets - Beginning of fiscal year	<u>39,595,650</u>	<u>61,964,506</u>	<u>101,560,156</u>
Net assets - End of fiscal year	<u><u>\$ 39,747,903</u></u>	<u><u>\$ 89,090,632</u></u>	<u><u>\$ 128,838,535</u></u>

MICHIGAN FINANCE AUTHORITY
Student Loan Fund - Combining Supplemental Schedule of Cash Flows
For the Fiscal Year Ended September 30, 2011

	Operating Fund	Bond Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Principal received on bonds, notes, and loans	\$ 1,522,252	\$ 262,066,123	\$ 263,588,375
Interest received on bonds, notes, and loans	241,240	52,901,064	53,142,304
Cash payments to employees and suppliers for goods and services	1,210,736	(20,697,046)	(19,486,310)
Other operating revenues	(776,380)	(28,197,774)	(28,974,154)
Net cash provided by (used in) operating activities	\$ 2,197,848	\$ 266,072,367	\$ 268,270,215
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Principal paid on bonds and notes	\$	\$ (301,190,561)	\$ (301,190,561)
Interest paid on bonds and notes		(18,756,763)	(18,756,763)
Net cash provided by (used in) noncapital financing activities	\$ 0	\$ (319,947,324)	\$ (319,947,324)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (purchases of) proceeds from sale and maturities of investment securities	\$ (5,878,004)	\$	\$ (5,878,004)
Interest and dividends on investments	11,295	43,229	54,524
Net cash provided by (used in) investing activities	\$ (5,866,709)	\$ 43,229	\$ (5,823,480)
Net increase (decrease) in cash	\$ (3,668,861)	\$ (53,831,728)	\$ (57,500,589)
Cash and cash equivalents - Beginning of fiscal year	26,268,459	576,210,142	602,478,601
Cash and cash equivalents - End of fiscal year	\$ 22,599,598	\$ 522,378,414	\$ 544,978,012
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES			
Operating income (loss)	\$ 152,254	\$ 27,126,127	\$ 27,278,381
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Investment income	(21,170)	(42,400)	(63,570)
Other income		(6,068,298)	(6,068,298)
Interest expense		1,221,555	1,221,555
Amortization of deferred charges		1,144,448	1,144,448
Changes in assets and liabilities:			
(Increase) decrease in other receivables	358,842	11,691,139	12,049,981
Increase (decrease) in other payables	(139,190)	(1,183,253)	(1,322,443)
(Increase) decrease in bonds, notes, and loans receivable	1,847,112	232,183,049	234,030,161
Net cash provided by (used in) operating activities	\$ 2,197,848	\$ 266,072,367	\$ 268,270,215

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
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(517) 334-8050
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Mr. Andy Dillon, State Treasurer and Chair
Michigan Finance Authority Board
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Dillon:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Michigan Finance Authority, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2011, which collectively comprise the Authority's basic financial statements as identified in the table of contents, and have issued our report thereon dated December 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined in the preceding paragraph.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Governor, the Legislature, the Michigan Finance Authority Board of Directors, management, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish", is enclosed in a rectangular box.

Thomas H. McTavish, C.P.A.
Auditor General
December 29, 2011

GLOSSARY

Glossary of Acronyms and Terms

ARRA	American Recovery and Reinvestment Act of 2009.
Authority	Michigan Finance Authority.
Consolidation Loans	Loans made to borrowers consolidating certain student loans.
deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
DEQ	Department of Environmental Quality.
ECASLA	Ensuring Continued Access to Student Loans Act.
FFELP	Federal Family Education Loan Program.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting.
Fitch	Fitch Ratings.
GAAP	generally accepted accounting principles; also cited as "accounting principles generally accepted in the United States of America."
GASB	Governmental Accounting Standards Board.

GASB 54	Governmental Accounting Standards Board Statement No. 54, <i>Fund Balance Reporting and Governmental Fund Type Definitions</i> .
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial schedules and/or financial statements will not be prevented, or detected and corrected, on a timely basis.
MGA	Michigan Guaranty Agency.
MI-LOAN	Michigan Alternative Student Loan.
Moody's	Moody's Investors Service.
MSA	Master Settlement Agreement.
PLUS Loans	Loans made to parents of dependent undergraduates.
S&P	Standard & Poor's.

significant deficiency in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Stafford Loans	Educational Loans made under FFELP to students.
TSR	tobacco settlement revenue.
unqualified opinion	<p>An auditor's opinion in which the auditor states that:</p> <ul style="list-style-type: none"> a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves.
USDOE	U.S. Department of Education.

